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THE WHITE HOUSE
WASHINGTON

July 23, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JIM CANNON
FROM: JIM CONNOR 
SUBJECT: USDA Testimony on Legislation to
Regulate Meat Packers

Confirming phone call to your office this morning, the President reviewed your memorandum of July 22nd on the above subject and approved the following:

Agriculture should oppose this bill and indicate they would recommend a veto if enacted.

Please follow-up with appropriate action.

cc: Don Rumsfeld

THE WHITE HOUSE

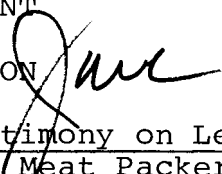
DECISION

WASHINGTON

July 22, 1975

MEMORANDUM FOR THE PRESIDENT

FROM:

JIM CANNON 

SUBJECT:

USDA Testimony on Legislation to
Regulate Meat Packers

PURPOSE

Jim Lynn has asked for a decision on whether USDA should testify tomorrow in support of, or in opposition to, a bill which would increase financial protection for livestock producers who sell to meat packers.

THE BILL

It would protect livestock producers by:

- requiring meat packers to be bonded for the payment of livestock purchased.
- authorizing the Department of Agriculture to enforce the law by seeking temporary court injunctions against noncomplying packers or issuing cease-and-desist orders against insolvent packers, and
- modifying the bankruptcy law to improve the status of claims against insolvent packers by livestock producers.

BACKGROUND

Efforts at the national level to bond meat packers have been made for at least two decades. To date, 21 States require such bonding, but only half have more than token laws. American Beef Packers recently went bankrupt leaving \$20 million of liabilities to livestock producers. A large percentage of other packers also have highly leveraged balance sheets with great financial risk.

Until this year, meat packing companies have successfully opposed national bonding legislation. However, because State legislation is becoming so stringent and diverse, the companies are now indicating no opposition to a national, State-preemptive act. Sentiment among livestock producers and their representatives in Congress is so strong that both the House and Senate have coordinated on having hearings this week within a three-day period so that witnesses can be heard in both bodies on one trip to Washington.

ARGUMENTS

Pro:

1. This national legislation would preempt some stringent and diverse State legislation.
2. It would provide some protection for livestock producers who are innocent victims of packer financial problems.
3. Livestock producers and their friends in Congress support enthusiastically.
4. Packers are indicating no opposition.

Con:

1. This authorizes a new spending program with an enforcement cost estimated by OMB to be \$800,000 annually.
2. It is contrary to your regulatory reform effort since it provides for new Federal regulation.
3. It will have some inflationary impact, since meat packing costs are predicted to rise if the legislation is enacted.
4. It gives preference to livestock producers vis-a-vis other businesses who sell (i.e., extend credit) to packers.

DEPARTMENTAL AND STAFF COMMENTS

Support: The Department of Agriculture--Strongly favors enactment of the bill. It believes the additional regulation is needed to remove the risk of serious financial loss by producers if packers fail to pay for livestock purchases.

No Objection: The Department of Commerce.

Oppose: The Department of Justice--Strongly opposes supporting this bill. All businesses face the risk of failure and have the same means of protecting themselves from debtors defaulting in their obligations. There is no evidence to justify extending preferential bonding treatment to further protect livestock producers.

Bill Seidman--Should be handled on a State basis; accordingly, national legislation is not recommended.

Max Friedersdorf--Vehemently opposes this bill, feels it is a budget buster.

OMB--Agriculture should oppose this bill.

DECISION

RR7

Agriculture should oppose this bill and indicate they would recommend a veto if enacted (Justice, Seidman, Friedersdorf, Lynn, Cannon).

_____ Agriculture should support this bill (Butz).



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

July 21, 1975

MEMORANDUM FOR: DON RUMSFELD
FROM: JIM LINN
SUBJECT: H.R. 5493; S. 1532

Issue

The Department of Agriculture is being asked to testify in the House this Wednesday and in the Senate this Friday on a bill which would increase the financial protection of livestock producers by

- requiring meat packers across the country to be bonded for the payment of livestock purchased
- authorizing the Department of Agriculture to enforce the law by seeking temporary court injunctions against noncomplying packers or issuing cease-and-desist orders against insolvent packers, and
- modifying the bankruptcy law to improve the status of claims against insolvent packers by livestock producers.

OMB estimates Ag enforcement responsibilities would cost \$800,000 annually.

Background

Efforts at the national level to bond meat packers have been made for at least two decades. To date, twenty-one States require such bonding but only half have more than token laws. American Beef Packers recently went bankrupt leaving \$20 million of liabilities to livestock producers. Packers slaughtering over 90% of U.S. livestock have aggregate current liabilities in excess of aggregate current assets.

2.

Until this year, meat packing companies have successfully opposed national bonding legislation. This year, because State legislation is becoming so stringent and diverse, the companies are indicating no opposition to a national, state-preemptive act. Livestock producers and their representatives in the Congress are uniformly enthusiastic about the bill -- as is the Department of Agriculture. Sentiment is so strong that both the House and Senate have coordinated on having hearings within a three-day period so that witnesses can be heard in both bodies on one trip to Washington.

Relationship to the President's Program

The bill presents several serious conflicts with the President's program -- it

- authorizes a new spending program
- runs counter to the President's emphasis on deregulation of industry
- has some inflationary impact since meat packing costs will be higher
- unjustifiably prefers livestock producers in their relations with purchasers over other sellers.

Opposing the legislation may well be tantamount to falling on one's sword. Supporting this kind of legislation seriously weakens other key Administration initiatives.

Signal please.

THE WHITE HOUSE
WASHINGTON

Jim -

This is the item that Don Rumsfeld wanted to speak to you about.

He wants it staffed by Cavanaugh -- he asked Jerry Jones to call Cavanaugh -- He wants the staffing completed and the letter to go into the President by the end of the day.

I showed it to Bob Linder and gave it to Judy Johnston to do the staffing.

Trudy 7/22/75

9:30 A. M.



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