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THE WHITE HOUSE

WASHINGTON

October 22, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

L. WILLIAM SEIDMAN

FROM:

JAMES E. CONNOR

JEC

SUBJECT:

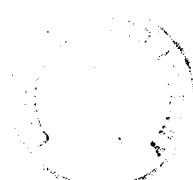
The U.S. Proposal for An International
Grain Reserves System - An Outline
and Comments

The attached proposal was returned in the President's outbox with the following notation in connection with the second paragraph on page 4.

" ? - Not so in 1975."

Please follow-up with appropriate action.

cc: Don Rumsfeld



THE PRESIDENT HAS SEEN...

It is better owner
of grain stock -
=> b. l. outlay -
plus int. & storage

The U.S. Proposal for An International Grain Reserves System -
An Outline and Comments

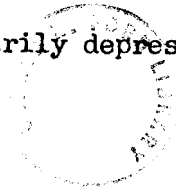
MCF

Outline of Proposal

1. Reserves would be holdings in excess of normal working stocks. Normal working stocks equal 10 percent of national production or consumption, whichever is larger. World working stocks equal 100 million metric tons of all grains. U.S. working stocks would be 200 million bushels of wheat plus 12 million cwt. of rice.
2. The world reserve stocks would be 25 million metric tons of wheat and 5 million metric tons of rice. Consideration would be given whether to add feed grains to the reserves.
3. No exact formula for country by country responsibility for holding reserves is presented. "Measures of trade in food grains, gross domestic product and variance in production meet these criteria", the document states. Probably, the United States would agree to hold about 8 to 10 million tons of wheat and rice, combined, in the reserve category.
4. Internationally agreed guidelines will be required to assure coordinated action. Action to increase reserve holdings would be triggered by a quantitative indicator based upon stock levels and deviations in production from the long-term production trend.

When production is estimated to exceed the long-term trend by an agreed percentage, participants would be required to increase reserves. With regard to reserves accumulation, the obligation of any participant would not go beyond its share of reserve holdings.

Likewise, agreed guidelines would be needed to govern draw-down of reserves. All participants will make reserves available when needed. Conversely, reserves must not be released prematurely or excessively and thus unnecessarily depress



market prices. National action to release reserves would be triggered by a quantitative indicator based on stock levels and production shortfalls operating in a manner similar to that for acquiring reserves.

5. There would be a two stage response to shortage situations.

A. Warning Stage :- Upon identification of a potential shortage situation, participants would consult to determine action warranted by facts and to coordinate activities. These actions could provide for:

- (a) Measures to reduce stocks (apart from reserves)
- (b) Reduction of wheat feeding to livestock
- (c) Reduction or elimination of export barriers
- (d) Exchange of additional information on anticipated production and trade levels including purchase and sale plans of government - constituted buying and selling agencies.

B. Shortage Stage - Participants would be obliged to make reserve stocks available, as agreed upon after consultation. Factors to be considered would include supply situation.

6. Access to supplies

Participants in the system should receive assured access to supplies at market prices, Non-participants or participants not complying with the agreement, would not be assured of obtaining access to reserves held by others.

Should a shortage be so severe that participants were forced to apply export restraints after having taken the measures outlined in the warning and shortage stages above, they would give preferential treatment to other complying participants.

7. Special provisions for developing countries

Special assistance should be extended to participating developing countries to assist them with meeting their obligation to hold a portion of global reserves.



Developing countries with larger reserve obligations could be provided with financial or food aid to help them meet their commitments. The aggregate shares of developing countries with small reserve obligations could be added to the reserve obligation of developed participants without greatly increasing these commitments.

8. Administration of the system

Each participating country should be free to determine how its reserves will be maintained and what measures to provide for their buildup, holding and draw-down.

To accomplish its objectives, the system would require provision for exchange of information and data regarding crop prospects, supply availabilities and stock, anticipated demand and international trade in grain. Such information would be needed on a timely basis.

Comments

The proposal suggests that each country is free to determine how its reserves will be built up and maintained. However, the U.S. proposal does not include the details for such an essential feature. The proposals are compatible with a Canadian Wheat Board system, but not with a U.S. free market system. Nor is it compatible with the announced policy that,

"The United States Government believes that food reserves should be handled by each nation, rather than to have a world-managed food reserve; and believes that the reserves in the United States should be owned by farmers and the private trade."



The text of the document sent to negotiators in London includes a reference to "an international agreement on nationally-held grain reserves." To implement this, it would be necessary for the U.S. government to become an owner of stocks equal to the reserve. As long as U.S. food grains are owned by farmers and the private trade, their individual decisions with respect to sales will be

based on their reactions to free market forces -- not on guidelines of an international body. President Ford has stressed the success of the market oriented farm policy of this Administration. This proposal contradicts this fundamental policy.

Limiting access to these supplies to "participating countries" in times of shortage would necessitate export controls, by countries. This does violence to the President's statement in the farm bill veto message as follows:

"This year, despite very trying circumstances, most farmers are again seeking full production. They have my support for a vigorous export policy for their products. We have now eliminated all restrictions on exports and we are determined to do everything possible to avoid imposing them again. Our farm products must have unfettered access to world markets."

1975
not so
?
Any announcement of export controls must result in an immediate sharp drop in U.S. farm prices. Because of the reduced foreign supply availability, there would be an accompanying increase in world prices. Thus, we would have a two tier system in the world wheat economy with U.S. prices substantially below those in the rest of the world.

The mechanics of such an export control proposal would involve unilateral cancellation of freely entered into contracts. This would mean windfall profits to some and windfall losses to many more. We witnessed what happened in this area in June 1973, when an embargo and allocation system was invoked on soybeans, soybean products, and related or competitive protein or oil products -- 41 different products. The results were disastrous, dropping U.S. market prices, raising world prices, and endangering our relations with customer nations who now have cause to doubt the sincerity of our trade commitments and our reliability as a supplier.

Any system, other than the free market, implies an arbitrary allocation,

by countries, of available supplies. This carries with it many diplomatic risks.

If the USSR and the Peoples Republic of China do not join in the reserve scheme and there is need by them for supplies of food grains, will all the signatories to a possible reserve agreement reject their efforts to purchase, even if they offer substantial bonuses? Actually, Soviet purchases could take place before the world statistics, which always lag the facts, are available to tell us the degree of shortage, if any.

N.B. Thus far, there has been little interest by other nations in the whole concept of reserve stocks. This may be the only cause for optimism!

