

# WHITE HOUSE STAFFING MEMORANDUM

DATE: 2/14/84 ACTION/CONCURRENCE/COMMENT DUE BY: FYI

SUBJECT: JOINT MEETING OF THE CABINET COUNCIL ON FOOD AND AGRICULTURE AND THE CABINET COUNCIL ON COMMERCE AND TRADE WITH THE PRESIDENT  
THURSDAY -- FEBRUARY 16, -- 2:00p.m. -- CABINET ROOM

|                | ACTION FYI                          |                                     |            | ACTION FYI                          |                                     |
|----------------|-------------------------------------|-------------------------------------|------------|-------------------------------------|-------------------------------------|
| VICE PRESIDENT | <input type="checkbox"/>            | <input type="checkbox"/>            | McFARLANE  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| MEESE          | <input type="checkbox"/>            | <input type="checkbox"/>            | McMANUS    | <input type="checkbox"/>            | <input type="checkbox"/>            |
| BAKER          | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | MURPHY     | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| DEAVER         | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | OGLESBY    | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| STOCKMAN       | <input type="checkbox"/>            | <input type="checkbox"/>            | ROGERS     | <input type="checkbox"/>            | <input type="checkbox"/>            |
| DARMAN         | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | SPEAKES    | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| FELDSTEIN      | <input type="checkbox"/>            | <input type="checkbox"/>            | SVAHN      | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| FIELDING       | <input type="checkbox"/>            | <input type="checkbox"/>            | VERSTANDIG | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| FULLER         | <input type="checkbox"/>            | <input type="checkbox"/>            | WHITTLESEY | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| HERRINGTON     | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | BAROODY    | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| HICKEY         | <input type="checkbox"/>            | <input type="checkbox"/>            | SMALL      | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| JENKINS        | <input type="checkbox"/>            | <input type="checkbox"/>            |            | <input type="checkbox"/>            | <input type="checkbox"/>            |

**REMARKS:**

ACTION ASSIGNEES ARE INVITED. PLEASE INFORM PATSY FAORO (x2800) IN THE OFFICE OF CABINET AFFAIRS IF YOU WILL ATTEND.

**AGENDA:**

*Coelho + 300 in House / Violates SART ; design is to force open other mktg  
50 in Senate / oppose, but will consider amendments on merits*

- 1) Farm Sector Conditions and Program Review (paper attached)
- 2) Wine Equity Act of 1983 (paper attached)
- 3) U.S. Poultry and Egg Industry (Paper attached)
- 4) Alaskan Oil Exports (paper to be distributed on 2/15/84)

**RESPONSE:**

Richard G. Darman  
 Assistant to the President  
 Ext. 2702

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- 1 Farm Sector Conditions and Program Review (Paper previously distributed)
- 2 Wine Equity Act of 1983 (Paper previously distributed)
- 3 U.S. Poultry and Egg Industry (Paper previously distributed)
- 4 Alaskan Oil Exports (Paper attached) } on hold (Subsidy bill)

**RESPONSE:**

RR ① decouple  
 gues of whether its new oil or not } check  
 report back

Regan, Clark, NSC suppt

Leg Aff = strong oppos.

EM: decouple from EAA  
 with Hodel to explore w/ Murkowski for future action

VP: suppts

**Richard G. Darman**  
 Assistant to the President  
 Ext. 2702

Developing A Comprehensive Dialogue and Review of Agriculture  
and Food Programs

SCHEDULE

- February-March      o Working Group conducts internal discussions of various department and agency views of agriculture.
- April-June            o USDA holds regional listening sessions that are open to the public.
- o Working Group subcommittees organize and prepare background papers on forces shaping U.S. agriculture drawing upon Working Group discussions and listening sessions.
- July-October        o Subcommittees hold roundtable discussions in Washington with appropriate parties.
- November            o Subcommittees provide Working Group with a list and evaluation of viable options identified during listening sessions, and roundtable discussions.
- November-December o Working Group reviews and assesses alternative options and provides recommendations to Cabinet Council.
- January              o Cabinet Council deliberates recommendations of Working Group and provides final food and agriculture policy options to the President in early January.

February 16, 1984  
DRAFT

DEVELOPING A COMPREHENSIVE DIALOGUE AND REVIEW OF AGRICULTURE  
AND FOOD PROGRAMS

Unprecedented events in the U.S. and world economies over the last three years have brought current farm policy to the forefront of discussion. The growing interdependency of agriculture and the international market over the past two decades has rendered present farm policy tools ineffective in dealing with the resultant volatility and uncertainty. It is time to look at basic policy changes that agriculture must face realistically in the long run, particularly with respect to the new omnibus farm legislation that will be up for renewal in 1985.

While there are no clear answers to what changes should be made, I know everyone feels that the policies adopted during 1985 will affect agriculture through the turn of the century. There is a genuine need by all concerned parties--farmers, consumers, and those who supply the farmer with inputs as well as process and market the product from the farm gate to the retail store--to become involved in order to find the answers to the problems confronting agriculture.

This must be a long-term effort in which everyone listens to and learns from one another about the new realities facing agriculture both domestically and internationally. We must expose misconceptions to factual evidence and consider all viable options, disregarding philosophical differences. Agriculture is the largest and most important industry in our nation and we must seek to ensure it a healthy future. The evolution of the current state of agriculture highlights some of these new realities.

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Statement by Secretary John R. Block before the Cabinet Council on Food and Agriculture, Washington, D.C., February 16, 1984.

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## Evolution of the Current Crisis in Agriculture and Food Policy

During the decade of the 1970's, the volume of U.S. exports increased 150 percent in response to a growing world demand. This growth in world demand is evidenced by an increase of nearly a third in world grain consumption and a rise in oilseed consumption of over 50 percent. Spurred by improved technology, U.S. agricultural output grew about a third during the decade in order to meet the heightened demand. Farm production assets more than tripled in that time of heavy investment. As a result, principal crop acreage harvested in the U.S. increased by about 55 million acres and livestock production made a substantial gain.

This was generally a time of increasing inflation worldwide. By the end of 1980 the annual rate of inflation in the U.S. was running 12 to 14 percent and interest rates were several percentage points higher. With heavy investment and high interest rates, farm debt soared, growing from \$50 billion to over \$150 billion in the decade of the 1970's.

In this inflationary period, farm market prices increased substantially and support levels, tied to the costs of production, were ratcheted up to unprecedented levels. At the same time, during the 1970's a relatively weak dollar enhanced our competitive position in world trade and helped lead to major gains in world markets, most notably grain and soybeans.

This was the setting at the time the Agriculture and Food Act of 1981 was being formulated. We had just come through a period of major expansion in the export earnings of the U.S. agricultural sector. It was widely believed that the United States was the only country that could produce enough food to satisfy the world's needs. Events of the 1970's were taken as precursors of things to come. Because of inflation, high and rising world oil prices, and a weak dollar, forecasts of continued strong export demand, rising production costs, and full production seemed reasonable expectations.

We should have reasoned that there would be times when we would move off trend, due in large part to the international influence on the farm economy. International and domestic economies had become increasingly interdependent, and we had little control over some major variables such as exchange rates, growth rates, and the like. While greater volatility was a reasonable expectation in an expanding world agricultural system, we were not prepared for the events that began unfolding in 1981 and have continued through the present.

First of all, the world experienced the worst and most pervasive recession in recent memory. With this came a downturn in world demand that saw our export volume decline for the first time in 13 years. The downturn in world demand had a dramatic impact upon many of our fastest growing markets in middle and lower income countries. The decade of the 1970's had witnessed tremendous increases in debt worldwide as the rapidly growing industrial countries and the dollar-rich OPEC countries provided large volumes of credit to many of these countries. With the downturn in world trade, these countries have had great difficulty earning sufficient hard currency through their own exports to pay the interest on their debt much less maintain import levels. Concurrently, less credit was available as growth rates in major industrial countries weakened and the OPEC trade surplus disappeared. Thus, as the financial condition of many of our prominent foreign customers such as Eastern Europe, Mexico and Brazil steadily worsened, their purchases from us plummeted. Our agricultural export volume for 1983 is estimated at 12 percent below 1980--the third straight year of decline--even though value may go up by close to \$3 billion.

Meanwhile, the value of the dollar steadily increased as foreign investors sought the security and high rates of return from American investments. The increase in the value of the dollar meant that our products were becoming more expensive in terms of the local currencies of our foreign customers. Thus, American products became less competitive in world markets and our volume of

trade suffered. As an example, over the past two and a half years, the dollar has increased in value by about 50 percent compared with the German mark. This means that even if the U.S. price had remained the same over the past two and a half years, the price in German currency would now be 50 percent higher. Such effective price increases are bound to reduce demand.

To make matters worse, the downturn in world demand was accompanied by increased tariffs and subsidization practices by some of our major foreign competitors--most notably the European Community (EC). For example, the EC just recently increased its subsidy for wheat flour in order to take over a larger portion of the Egyptian wheat flour market. Other countries such as Japan continue their policies of limiting access of certain agricultural products through quotas and non-tariff trade barriers.

Other factors beyond anyone's control, such as the weather, also compounded our problems during this period of stagnant demand. Unusually good weather worldwide during the 1981 and 1982 growing seasons resulted in record crops at home and good crops abroad. While we are appreciative of bountiful harvests, the record harvests of 1981 and 1982 came at a time of slack demand and resulted in the largest surpluses in history. The large surpluses continued to overhang the market as we approached the 1983 crop year, and this led to reduced prices and incomes for many farmers.

By the fall of 1982, it became obvious that the traditional commodity programs were insufficient to deal with the huge surpluses on hand. In fact, certain aspects of these programs were encouraging more to be produced. A special program was needed to specifically address the immediate needs of agriculture. As a stopgap measure, the payment-in-kind program (PIK) was the best alternative available to deal with the record surpluses. It did not short the market and was the least costly approach since it used government stocks and secured loans as payment for the acreage taken out of production.

The worst drought in 50 years followed on the heels of the PIK program and sharply reduced 1983 crop production, especially for feed grains and soybeans. For example, the estimates of corn production was 2 billion bushels higher in July than the harvested crop. Because of record carryin, crop supplies for 1983/84 are adequate for domestic and foreign needs. However, in addition to many unprotected crop producers, livestock and poultry producers have been financially squeezed by smaller feed supplies and rising feed prices as a consequence of the drought.

While the cause and effect of the various events that influence agriculture are often a matter of opinion, two fundamental facts are clear. First, the future is unpredictable. After witnessing world recession, record annual world grain output, the largest acreage reduction ever and the worst drought in a half a century--all in just over two years--I think few would disagree. Second, U.S. agriculture and the factors affecting it are changing as the sector becomes increasingly integrated into the domestic and international economy. The agriculture and food sector has become an export sensitive sector that employs over 20 percent of the U.S. labor force and generates one-fifth of our nation's economic activity. It is no longer isolated from the developments or policies of other sectors of our economy or the policies and events in other countries.

#### President Reagan Takes Action

President Reagan is well aware of the importance of agriculture in the economy. He has made special efforts to reassure the world of our role as a reliable supplier and he has eliminated the policies which have so damaged our image in major foreign markets. But he recognizes that we are in a watershed period for agriculture and food policy and we must act if we are to use this time effectively.

One of the first groups invited to meet with President Reagan at the White House in 1984 was a group of farm leaders. At that meeting on January 5, the President announced that he was charging the Cabinet Council on Food and Agriculture to conduct a comprehensive review and assessment of current food and agriculture programs. The President indicated that the purpose of this endeavor was to better prepare the Administration to participate in the debate on the future of Federal farm programs and policies. The President emphasized that his Administration would be seeking information and ideas from people inside and outside of government during this comprehensive review and assessment.

To understand the priority that President Reagan has placed on this review and assessment of future agriculture and food policy, it is necessary to know something about the President's decision-making process. The organizational structure that the Reagan Administration has devised for formulating policy advice builds upon a "Cabinet Government" approach.

Broad issues affecting the entire government and overall budgetary and fiscal matters are reviewed at meetings of the full Cabinet. Other issues that cross agency lines are reviewed, as appropriate, before the National Security Council or one of the Cabinet Councils on Economic Affairs, Commerce and Trade, Human Resources, Natural Resources and Environment, Food and Agriculture, Legal Policy, and Management and Administration.

The membership of the Cabinet Councils varies with department and agency responsibilities. The Cabinet Council on Food and Agriculture has the following membership:

President Reagan, Chairman  
Secretary of Agriculture, Chairman Pro Tem  
Secretary of State  
Secretary of Interior  
Secretary of Commerce  
Secretary of Transportation  
U.S. Trade Representative  
Director of the Office of Management and Budget  
Chairman of the Council of Economic Advisers

The Cabinet Councils have three levels of operation. At the highest level, their meetings are chaired by the President. At working sessions, the lead Cabinet member on each Cabinet Council presides as chairman. The third level of Cabinet Council meetings involves a staff secretariat made up of representatives of each of the Cabinet Council members and headed by an executive secretary who is an employee of the White House Office of Policy Development. Once an issue is assigned to the appropriate Cabinet Council, issues should percolate upward through the system.

#### The Cabinet Council Working Group

In order to carry out the President's directive, we have established a Cabinet Council Working Group on Future Food and Agriculture Policy. The Working Group's mandate is three-fold; to initiate a dialogue on the future course of food and agriculture policy with interested parties inside and outside of government; to review and assess current food and farm programs; and to prepare a list of food and agriculture policy options for 1985 for consideration by the Cabinet Council on Food and Agriculture.

The Working Group is chaired by the Deputy Secretary of Agriculture, Richard E. Lyng, and consists of high-level officials from the Departments of State, Treasury, Interior, Commerce, and Transportation, the Office of the U.S. Trade Representative, the Office of Management and Budget, the Council of Economic Advisers and the White House Office of Policy Development. The executive secretary of the Cabinet Council on Food and Agriculture serves as the executive director of the Working Group.

#### Setting the Agenda

In February and March, the Working Group will begin an intensive internal discussion of the problems facing agriculture from the perspective of the various departments and agencies. The Department of Agriculture will begin the

review and assessment with a comprehensive overview of the current conditions of the U.S. food and agriculture sector. The other agencies and departments will present their perspective on events shaping agriculture as viewed from their area of responsibility. For example, some of the issues to be discussed by respective agencies include:

Department of Treasury: What has been the impact of fiscal and monetary policy on developments in agriculture markets? What influence do exchange rates have on agricultural exports?

Department of State: What has been the contribution of aid programs to U.S. agricultural exports? Are aid recipients buying from U.S. competitors with U.S. aid dollars?

Department of Commerce: How important is agriculture to the U.S. economy? How have agricultural developments shaped the related input sectors such as machinery, fertilizer, chemicals, etc.?

Office of U.S. Trade Representative: How have current trends in protectionism shaped agriculture and what are the prospects for the future? What is the proper response to current trade problems? How have the GATT rules on international trade affected U.S. agricultural exports? Are the interests of agriculture, steel, textiles, autos and other industries compatible with a single position on trade issues?

Department of the Interior: Have commodity programs contributed to or detracted from efforts to conserve our natural resources?

Department of Transportation: How do transportation policies affect the domestic and international marketing of farm products? Do our transportation policies adequately serve the needs of rural America?

Office of Management and Budget: What has been the impact of agriculture on the budget?

Council of Economic Advisers: How important is agriculture to the U.S. economy? How much have consumers benefitted from agricultural programs? Do their outlays as taxpayers exceed their benefits as consumers in terms of abundant low cost, high quality food?

This process will give each member of the Working Group a broader perspective on the various agencies' views of agriculture. Most importantly, it will provide an opportunity to inform members of the Working Group on the new realities of the U.S. food and agriculture system. It will permit a clarification of any misconceptions concerning agriculture and its role in the economy and identify the highly controversial areas in which the Working Group may wish the subcommittees to concentrate their efforts in developing background materials. Critical unresolved differences of opinion among departments and agencies on how basic events impact agriculture warrant special attention.

Subcommittees of the Working Group

In order to facilitate the development of basic factual information, the Working Group will be supported by the following subcommittees composed of representatives of interested agencies and departments:

- o Farm Commodity Programs (chaired by the Assistant Secretary for Economics, USDA);
- o International Trade and Foreign Food Assistance (chaired by the Under Secretary for International Affairs and Commodity Programs, USDA);
- o Resource Conservation (chaired by the Assistant Secretary for Natural Resources and Environment, USDA);
- o Research (chaired by the Assistant Secretary for Science and Education, USDA);
- o Farm Credit and Rural Development (chaired by the Under Secretary for Small Community and Rural Development, USDA); and
- o Feeding and Nutrition Programs (chaired by the Assistant Secretary for Food and Consumer Services, USDA).

The chairpersons of the subcommittees will assure that interested departments and agencies have an opportunity to participate in the subcommittees' work. The chairpersons also will report the results of the subcommittees' deliberations to the Working Group.

The basic responsibility of the subcommittees will be to develop detailed, factual background papers to focus the dialogue on future food and agriculture policies in areas of greatest significance. The papers should create a factual base from which to evaluate the forces shaping U.S. and world agriculture. For example, the subcommittee on farm commodity programs would develop background material on the structure of each basic commodity industry, including production characteristics, supply/use trends, market development trends, history of government programs and the overall importance of the commodity in the U.S. and world economy. The subcommittee on international trade and foreign assistance would provide a profile of U.S. agriculture trade patterns to identify the key factors responsible for the current state of U.S. export markets. Similar factual papers will be prepared on credit programs, feeding programs, conservation programs and research. Subcommittee chairpersons may wish to invite expert subject matter specialists to develop papers or make presentations to the subcommittees in the more complex and controversial areas identified during the internal Working Group review.

The subcommittees' background papers will be reviewed by the Working Group and released to the public as a basic educational document to facilitate an informed dialogue on farm program and policy options. The papers will contain no recommendations but will serve to present the issues in a factual context. The papers should be completed by the end of June.

Listening to the People

While the subcommittees are organizing and preparing the basic background documents, the Department of Agriculture will listen and learn from the people of this nation who will be most affected by the future course of food and agriculture policy.

In April through June, the U.S. Department of Agriculture will go directly to the general public in a series of eleven regional listening sessions. This phase of the review is critical for the Working Group and its subcommittees since it will provide an opportunity to receive advice and counsel from those most directly impacted by decisions on food and agriculture programs. Those wishing to participate will be encouraged to present basic information to support policy options that they feel will realistically meet the challenges facing agriculture.

The regional hearings will be held in (see attached map):

- o Albany, New York
- o Harrisburg, Pennsylvania
- o Atlanta, Georgia
- o Chicago, Illinois
- o Columbus, Ohio
- o Des Moines, Iowa
- o Dallas, Texas
- o Kansas City, Missouri
- o Denver, Colorado
- o Sacramento, California
- o Portland, Oregon

These listening sessions will be chaired by the Secretary or Deputy Secretary of Agriculture and the agenda will be designed to permit sessions on each of the areas of responsibility of the subcommittees. Others from USDA will also be present, and so may Cabinet or sub-Cabinet officials from other agencies.

The purpose of these meetings will be to develop a dialogue with the concerned parties in this country regarding the current state of agriculture and its programs and the options they feel will be most effective in achieving the desired results. While Working Group members will be encouraged to attend the

regional meetings, transcripts of all sessions will be prepared for the Working Group by the Department of Agriculture.

#### The Subcommittees Roundtable Discussions

In July through October, the subcommittees will provide an opportunity for a more detailed exchange of views on identified topics. Members of Congress, leaders of major farm organizations and commodity groups, representatives of key related industries such as fertilizer and machinery, consumer representatives and other subject matter experts will be invited to participate in these roundtable discussion sessions to further delineate the problems and options facing agriculture.

These discussions will be focused on the broad issues which affect all subsectors of the food and agriculture system. For example, in the area of commodity programs, the focus would be the impact of a selected policy tool, such as loan rates, on farm income, grain prices, livestock returns, consumer prices, exports and trade share.

#### Subcommittees Prepare List of Proposed Options

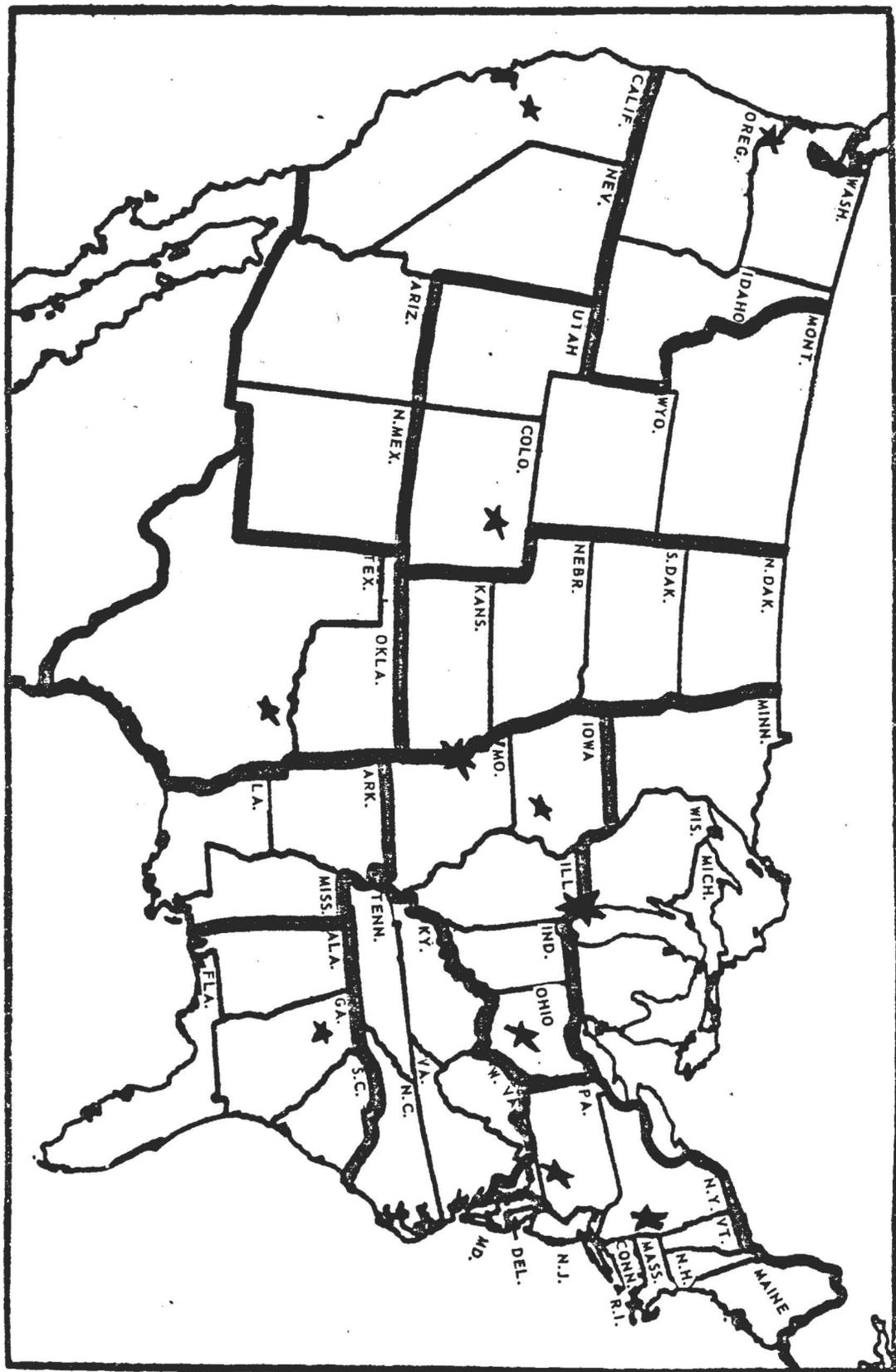
During November, the subcommittees of the Working Group will develop detailed option papers on the basis of the dialogue at the listening sessions and roundtable discussions held in April through October. All viable options will be carefully analyzed and the pros and cons of each alternative carefully stated to facilitate consideration by the Working Group. Further material may be obtained from additional expert witnesses or more detailed discussions with proponents of specific options.

#### Working Group Prepares Recommendations to Cabinet Council

In December, the Working Group, utilizing the information provided by the subcommittees, will complete its deliberations and submit a list of recommended food and agriculture policy options to the Cabinet Council on Food and Agriculture

for its consideration. After reviewing the Working Group's recommendations, the Cabinet Council will submit its recommendation on future food and agriculture policy to the President in early January 1985.

Our success in this endeavor will depend upon our commitment. We all know that our decisions are only as good as our own judgment and the information and counsel we receive from our trusted advisors. President Reagan recognizes that the strength of this nation lies with its people. Agriculture is a critical part of this nation, and food and farm programs and policies can only be enhanced by the forthright exchange of ideas whether it be in the wheat fields of Kansas, the cornfields of Illinois, the halls of Congress, the Cabinet Room of the White House or the Oval Office. The success of future food and agriculture policies will reflect the commitment that each of us as individuals makes to ensuring the future health of agriculture.





THE SECRETARY OF ENERGY  
WASHINGTON, D.C. 20585

MEMORANDUM FOR THE PRESIDENT

THROUGH: THE CABINET COUNCIL ON COMMERCE AND TRADE  
FROM: SECRETARY OF ENERGY *Don Hodel*  
SUBJECT: REVISITATION OF ADMINISTRATION POSITION ON WHETHER  
TO PERMIT LIMITED EXPORTS OF ALASKAN CRUDE OIL

Background:

We have been asked by the Office of Cabinet Affairs to bring you up-to-date on a proposed amendment to the Export Administration Act (to be offered by Senators Frank Murkowski and Ted Stevens) which would permit limited exports of Alaskan crude oil. Both the Cabinet Council on Commerce and Trade and the Cabinet Council on Natural Resources and Environment have discussed this issue in past meetings.

Action Forcing Event:

The Export Administration Act expires February 29, 1984, and the Murkowski-Stevens amendment is expected to come up for Congressional consideration after the current recess.

Summary of Amendment:

The amendment to be proposed by Senators Murkowski and Stevens:

- 1) Permits the export of 200,000 barrels a day of Alaskan crude oil.
- 2) Requires you to make and publish findings that any Alaskan crude oil to be exported outside the U.S. be transported in U.S. built and documented vessels, and that such vessels be maintained and repaired in U.S. shipyards; and that crude oil export contracts be subject to later termination upon a finding that U.S. crude oil supplies are interrupted, threatened or diminished.
- 3) Requires a Presidential finding that export will: a) not impair the ability of the maritime industry to transport amounts of crude oil necessary to meet national security or military needs; b) provide substantial increases in federal revenues; c) be made only to countries which have made substantial progress in removing trade barriers to U.S. imports; d) encourage domestic oil exploration and development; and, e) enhance the U.S. international trading position.

The proposal also would delete Presidential finding requirements in current law that export will result in lower acquisition costs for refiners and reduce consumer costs.

Status:

The Alaskan delegation strongly supports Senator Murkowski's proposal. Although certain provisions of the amendment attempt to defuse maritime industry opposition, indications are that maritime unions remain opposed.

From the perspective of national energy policy, limited export of Alaskan crude oil would enhance the energy security of the United States by increasing domestic oil production and promoting efficient oil transportation and domestic refining. It also would increase the stability of supplies for our allies in the Far East, and the flexibility of the world oil market to adjust to unexpected supply disruptions. Although the U.S. energy security would not be diminished by permitting exports, the provision in Senator Murkowski's amendment to permit termination of contracts in the event of an oil supply disruption would resolve energy security questions that have been raised in the past by opponents of those exports.

Should the Administration decide to review and revise its prior decision before supporting the proposed Murkowski-Stevens amendment, technical flaws would need to be resolved to ensure it's effectiveness.