Collection: Blackwell, Morton: Files
Folder Title: Louisiana
Box: 12

file
Louisiana

THE WHITE HOUSE

WASHINGTON

9/15/81

Kathy:

The attached group of physicians will be briefed by:

Jim Friedman,
Acting Deputy Assistant Secretary
for Health 245-1824

Room 703H Hubert Humphrey Building
Independence Avenue, sw

9:30 a.m./Wed., 9/16/81

Marilynne Gisin

Louisiana State Medical Society

1700 Josephine Street
New Orleans, Louisiana 70113
Phone: 561-1033
1 (800) 462-9508

September 2, 1981

Morton C. Blackwell
Special Assistant
Office of Public Liaison
The White House
Washington, D.C. 20500

Dear Morton:

I am writing to ask your assistance in setting up a briefing for a small group of physicians from Louisiana.

We would like to become more conversant with the impact of block grants on health care. We especially want to learn of the increased responsibilities at the state level and within the private practicing physician's office.

The group will consist of 5-8 people, almost all of whom are elected leaders of the Louisisna State Medical Society. We would like to schedule the meeting for 9:30 a.m. on Wednesday, September 16.

Please contact me as soon as possible so I may transmit the information to those attending.

Sincerely,

Bob

Robert H. Fry, Director
Division of Public Affairs

RHF/pf

SEP 14 1981

Louisiana State Medical Society

1700 Josephine Street
New Orleans, Louisiana 70113
Phone: 561-1033
1 (800) 462-9508

September 2, 1981

Morton C. Blackwell
Special Assistant
Office of Public Liaison
The White House
Washington, D.C. 20500

Virginia Kramer

Dear Morton:

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Sincerely,

Robert H. Fry, Director
Division of Public Affairs

504-561-1033 - in Louisiana
Mayflower Hotel - in Washington
347-3000 Rm.

RHF/pf

JOHN WYETH "Jock" SCOTT
26th DISTRICT

CHAIRMAN, Committee
on House & Governmental Affairs

House of Representatives
Baton Rouge, Louisiana 70804

file - La.

May 18, 1981

Mr. Morton Blackwell
Office of Public Liaison
White House
Room 134 E.O.B.
Washington, D. C. 20500

Dear Morton:

This short note is to thank you for your assistance and guidance in Washington last week. I'm hopeful the many meetings will ultimately lead to involvement of those key people in my effort to enter Congress. In any event, I learned a great deal from those conferences and I've returned home loaded down with information, ideas and projects to be accomplished.

Again, thank you for your interest and efforts on my behalf. Thanks also for your thoughtful lunch invitation at the White House. I thoroughly enjoyed it.

Very truly yours,

Jock

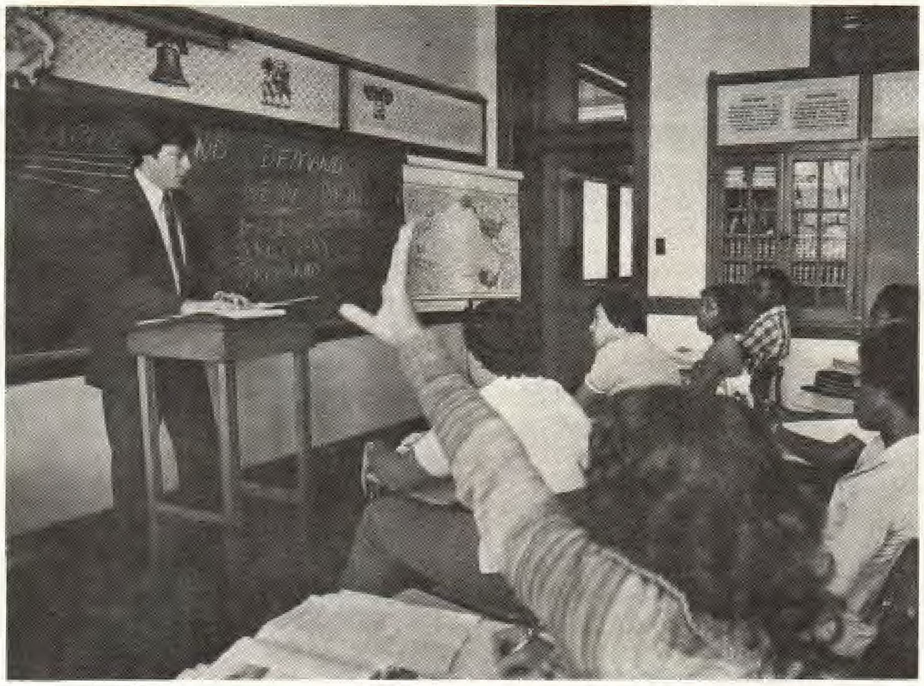
Jock Scott
State Representative
District 26

JS:pn

encl.

Baton Rouge BRIEFS:

A Constituent Report From State Representative JOCK SCOTT Spring, 1981



"Jock is a Teacher for a day". Rep. Scott participated in the "Back to School" program sponsored by the Louisiana Association of Educators during April. He taught the 11th grade American history class at Bolton High School.

Democrats Elect Scott National Committeeman

The Louisiana Democratic Central Committee, composed of 203 Party leaders, met in Baton Rouge during January and elected Jock Scott to represent Louisiana on the Democratic Party National Committee.

The selection of Representative Scott marks a decisive victory for Party reformers.

"The Democratic Party is out of step with America. Inflation weary voters, who have supported Democrats in the past, turned to Ronald Reagan this past fall," said Scott.

"It's time we got the message. The challenge before the Democratic Party is to free America of inflation. Just as Democrats met the challenge of racial discrimination, of equal opportunities, better work conditions, a higher pay to the American people . . . so must we relieve the American worker of the crippling burden of inflation."

Representative Scott attended the National Committee meeting in Washington, D.C. during February.

SCOTT PROPOSES TAX CUT

The 1981 session of the Legislature got underway this week with a speech by Governor David Treen. Treen's talk was dominated by the subject of MONEY and SPENDING.

The state has over a billion dollars of new money in the state treasury due largely to oil deregulation. In recent years, Louisiana has annually enjoyed increasingly large surpluses.

What should we do with those windfall dollars? Do we save the money as a "rainy day" fund? Or do we spend the money on construction projects like better roads and schools? Or, do we reduce taxes and return the extra money to the taxpayers?

Governor Treen declared his belief the windfall money should be spent on public construction projects. He did not propose a tax cut.

I disagree. If there will ever be a time for tax cuts, that time is now. When I entered the Legislature in 1976, the operating budget was $3.2 billion. This year, it has doubled to $6.5 billion. State government is growing at a rate much faster than inflation.

The most effective way to hold down state spending is to hold down the money available to spend. Significant tax cuts will discipline the Legislature to thoughtfully set priorities and spend money carefully.

I favor the repeal of our state income tax. Last year we reduced the personal income tax by $100 million. If that tax were to be reimposed this year, it would be worth $180 million. The value of that tax cut will continue to grow in future years as Louisiana's economy grows. A tax cut serves as a trust fund because it preserves taxing capacity that can be restored if necessary in the future.

Some day, Louisiana will no longer have the luxury of windfall revenues and budget surpluses. When that day arrives, balancing our bloated budget will be hard to do and we would be very glad we had cut taxes during the days of plenty.

So that's what I advocate. We should eliminate the Louisiana Income Tax. Even with this tax cut, there remains sufficient money to fully fund the largest operating and construction budgets in Louisiana history.

EDITORIAL by Rep. JOCK SCOTT

A Different Viewpoint

Louisiana is enjoying another windfall of oil funds. We'll have millions of dollars in surplus. It's not surprising that municipalities, school teachers, state employees and others are attempting to increase salaries and funding.

While the rush for windfall money gathers steam, no-one seems to be thinking very much about the years ahead.

The dramatic windfall from oil deregulation will soon be over. Oil has now been completely deregulated by President Reagan. That means oil prices should stabilize and rise more slowly in step with inflation. Accordingly, the rise of oil revenues in Louisiana will slow depending on the amount of oil production.

Louisiana may face difficult times ahead trying to balance our bloated budget. Unfortunately the State has failed to put the windfall money aside for the days ahead. The only savings so far is the $100 million tax cut last summer. Governor Treen is contemplating putting another $235 million aside this summer in a savings trust fund.

More should be done to preserve the wealth from our natural resources.

Natural gas is being gradually deregulated over the next four years. But gas deregulation does not increase Louisiana revenues because, unlike oil, our natural gas severence tax is based on volume, not on percentage of value. As a result, even if the price of natural gas doubles, the tax revenue remains the same.

Two years ago, our 7¢ severence tax equaled 15% of the value of our natural gas. Today, the percentage value of the severence tax is only 5.3%. And we can expect the value of our tax to continue downward even though prices are going up with deregulation.

The Legislature must consider a change. We can no longer allow 70% of our natural gas production to be used by out of state consumers without just compensation. My recommendation is to freeze and adopt the 5.3% figure as the permanent level of our severence tax. Our tax would then be based on value, not on volume. With this change, Louisiana would gain revenue without increasing taxes as the price of natural gas is deregulated.

Key 1980 Accomplishments Of Legislature

Taxes:

1) $100 Million Income Tax Cut: This reduction in the personal income taxes of individual citizens is the largest tax cut in Louisiana history. A family earning less than $15,000 annually will pay no income tax. For all others, the new law provides at least a 33% tax cut. Overall, its a 44% reduction . . . therefore almost cutting the income tax in half.

Regulatory Reform:

2) Legislative Veto: Provides the Legislature the authority to suspend the effect of unnecessary rules and regulations

Elections:

3) Election code: Corrected many of the glaring problems apparent during the 1979 Governor's election, including a workable procedure for challenging elections; to assure ballot security and quicker, more accurate vote counting.
4) Campaign Practices Law: Creates strong regulation of political organizations; strict limitations on cash donations and expenditures; prohibition of endorsements being paid for; strict regulations on providing voter transportation; simplification and improvement of donation and spending report system by candidates.
5) Elections Integrity Commission: The purpose is to oversee elections; conduct investigations; challenge election results in civil court where irregularities may affect the outcome; file reports of investigation to district attorneys where appropriate.

Responsible Use of Tax-Payer's Money:

6) The Capital Outlay Budget Reform Act: "Capital Outlay" includes all public projects including highways, drainage, state buildings, schools, offices, colleges and universities, etc. The process in the past for determining what projects to build has been dominated by politics.

   The purpose is to establish a procedure for projects to undergo cost-benefit analysis; for the Governor to make his Capital Outlay recommendations before the legislature meets. Only projects which have undergone such analysis may be considered for funding.

Education:

7) Professional Practices Commission For Teachers: The purpose is for teachers to monitor, set standards and improve their own profession. The Commission will adopt a code of standards for teachers and conduct hearings on complaints filed by teachers or parents. Such hearings may be followed by public recommendations for appropriate action by local school boards or the Board of Elementary and Secondary Education.

The Legislative's toll-free PULSE Line telephone number is maintained for interested persons to obtain current status of any bill under consideration. The PULSE-Line number is 1-800-272-8186.

Chances Better For Interstate Funding Of High Rise Bridge

Our chances to obtain 90% federal funding of a six lane high-rise bridge at the Fulton Street location increased significantly this week following an April meeting in Baton Rouge with North-South Highway planners.

Already, the Louisiana Department of Transportation has committed state funds for the purpose of converting the existing Fulton Street Bridge to high-rise height. But this week's meeting increased the chances that Interstate funds may be granted to build a six lane high-rise structure (or two 3 lane bridges) at this location. The new structure would connect the Pineville Expressway and the North-South Highway.

The conceptual North-South Highway plans envision a six lane bridge at this location. However, the present Interstate highway funding does not include a new bridge across the Red River. Therefore, an extension of the Interstate system must first be approved in Washington.

Applications have now been filed by the Louisiana Department of Transportation requesting the Interstate system be extended across the Red River so that 90% funding by the federal government would become available. Even if federal funding is denied, the State will provide the necessary funds to modify the Fulton Street Bridge to high-rise height. However, this plan would involve delays due to the difficult problem of re-routing current Fulton Bridge traffic during re-construction.

'81 Legislature Faces Reapportionment

All Legislative, Congressional and Public Service Commission districts must be redrawn every ten years after each new national census. The 1980 census has been completed and the Legislature will reapportion all districts during a special session in either September or October of 1981. Rep. Jock Scott heads the committee charged with the task of reapportionment.

The new districts must be equal in population and must be drawn in a manner fair to minorities. The districts should be as geographically compact as possible and contiguous. Furthermore, re-districting should adhere to established political boundaries, such as parish lines and ward lines, as much as possible.

Louisiana will retain eight Congressional seats in the U.S. House of Representatives. However, significant changes in boundary lines may occur due to certain districts being underpopulated or overpopulated. The population of Rapides Parish has grown 14.6% since 1970 and now totals approximately 135,000. It is uncertain whether the redrawing of Congressional boundaries will affect Rapides Parish's present division between the 5th and 8th Congressional Districts.

Reapportionment is not expected to affect Rapides Parish's numerical representation in the State Senate and State House although there will certainly be changes to district boundary lines.

Nationally, the new census will result in significant shifts in the political representation in Congress of various regions of the country. The "sunbelt states" extending from California across the South to Florida will be representated by 18 additional seats in the U.S. House of Representatives; the northeast portion of the country will lose most of these seats. This change reflects the population growth in the "sunbelt". For the first time, these states will have a numerical majority in Congress.

With the loss of 18 seats from northeast and the gain by the "sunbelt", the 1982 elections may well bring an even stronger conservative flavor to the Congress. These changes will also mean a stronger "sunbelt" voice in the electoral college process of electing the President and the party primary system of nominating national candidates.

Legislative Assistant Dennie Williams will operate Rep. Scott's Alexandria office during the 85 day session. Dennie will obtain information you need upon request. The Alexandria office number is 487-5700

"LaHacienda Fiesta Draws Governor Treen, Edwards". Over 500 supporters attended Rep. Scott's Western Fund-raiser in October. Governor David Treen and Edwin Edwards are among the guests. Above, Rep. Scott introduces the Governor to friends.

The Legislature: The Local Perspective

The 1980 Legislature approved funding of a long list of local highway and transportation needs, including new and extended service roads on Highway 165 south; additional four-laning on Highway 1 north; the extension of four-laning on the Pineville Expressway; the construction of a parallel high-rise bridge beside the O.K. Allen Bridge north of Alexandria and Pineville along with four-lane construction on each side to connect MacArthur Drive and the Pineville Expressway (right-of-way, environmental and design studies are underway). Many other Rapides Parish highway projects on both sides of the Red River received funding (our office will supply full information upon your request).

We also received full funding of a new Public Television Station to be established in Rapides Parish, finally bringing many educational, cultural and entertainment programs to local television viewers.

Five major projects now dominate our efforts in Baton Rouge. These include the North-South Highway, the Alexandria/Pineville High Rise Bridge, the Red River - Industrial Park Port and the installation of new Rapides Bayou Drainage Pumps to improve drainage in our region.

Scott Recognized For Work As Committee Chairman

Representative Jock Scott was appointed Chairman of the House and Governmental Affairs Committee last year by Speaker John Hainkel. This Committee has jurisdiction over a broad scope including Civil Service, election laws, campaign laws, constitutional amendments, Code of Ethics, veterans affairs, legislative rules and reapportionment.

The Committee was the source of an abundance of important legislation during 1980, including reform of the Election Code and Campaign Practices Act; creation of the elections Integrity Commission; regulatory reform and improvements to the Code of Ethics.

Representative Scott was named among the "Ten Best Legislators" by a poll of fellow legislators, capitol press corps and lobbyists. He received the same recognition from "Common Cause", the citizens' lobbyist organization. Last March, the State Jaycees selected Jock as "Outstanding Young Man of Louisiana".

The Lafayette Daily Advertiser described Scott's efforts as follows: "Scott has rolled up his sleeves and gone to work as the new Chairman of the House and Governmental Affairs Committee which he runs beautifully . . . Jock Scott is one of the House's most impressive young leaders."

Jock Scott's

Pulse Poll

This poll solicits your viewpoints on key issues to be considered during the 1981 Legislative Session. I urge you to complete this poll in order that I may have the benefit of your thoughts. The completed form should be mailed to:

State Representative Jock Scott
P.O. Box 171
Alexandria, LA 71301

Thank you for your help.

PLEASE READ THE QUESTIONS CAREFULLY AND MARK THE APPROPRIATE RESPONSE.

(1) Louisiana will have a large budget surplus this year. I'd like to have your views on the best way to use this money. Please number the spending options listed below in the order of your preference: **Preference**

1. Tax reductions .... ______
2. Payraises for teachers .... ______
3. Payraises for state employees .... ______
4. Deposit funds in interest-bearing trust funds .... ______
5. Highway and drainage construction and improvement .... ______
6. Share revenues with municipalities for more and better law enforcement officers and equipment .... ______
7. Fund the P.I.P. program for teachers wherein teachers could participate in continuing education programs ______ and qualify for higher salary .... ______
8. Increase revenue sharing with local governments .... ______
9. Increase state assistance to the poor .... ______
10. Increase assistance to the handicapped .... ______
11. Increase state assistance to the elderly .... ______
12. Other? ______ ______

(2) If taxes are to be reduced, what tax would you prefer the State reduce? Please number in your order of preference: ______

1. Sales tax .... ______
2. Personal income tax .... ______
3. Corporate income tax .... ______
4. Severence tax .... ______
5. Gasoline tax .... ______
6. Other ______ ______

	Favor	Oppose
(3) Do you favor or oppose the subject of biblical creationism being taught in our public schools just as the theory of evolution is being taught today?	______	______
(4) The 8th Congressional District of Louisiana will be redrawn this year. Rapides Parish is the northern-most parish of the 8th Congressional District, which extends south to Lake Pontchartrain. Do you favor Rapides Parish:		
A. In the 8th Congressional District	______	______
B. Be combined with Monroe in the 5th Congressional District	______	______
C. Be divided, as we are now, between the 5th & 8th Districts	______	______
(5) Do you favor or oppose gun control? Comments ______	______	______
(6) At present, Louisiana's severence tax is 7¢ per 1,000 MCF. With recent rises in the price of natural gas, the 7¢ tax has shrunk from 13% of the actual value of the natural gas two years ago to a 5.3% today. 70% of this natural gas is used by out of state consumers. Should Louisiana freeze the severance tax at 5.3% of value so if the value continues to rise, Louisiana's income will rise with it?	______	______
(7) Would you favor or oppose legislation allowing the Governor to veto the new rules and regulations issued by agencies, with the Legislature retaining the authority to override such a regulatory veto?	______	______

THANK YOU FOR RESPONDING TO THIS POLL. THIS REPORT TO CONSTITUENTS IS PAID FOR BY DONATIONS. PLEASE HELP REP. SCOTT CONTINUE THIS SERVICE BY ENCLOSING YOUR DONATION WITH YOUR POLL RESPONSE.

—THANKS FOR YOUR HELP

ADDITIONAL COMMENTS ______

Optional: Name ______

Address ______ Occupation ______

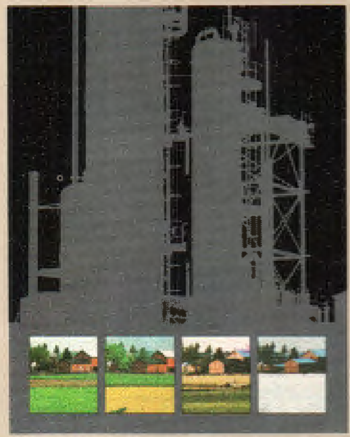
— NOT PRINTED AT TAXPAYERS' EXPENSE —

Annual Report 1980

CF Industries, Inc.

...providing nutrients to recycle the earth

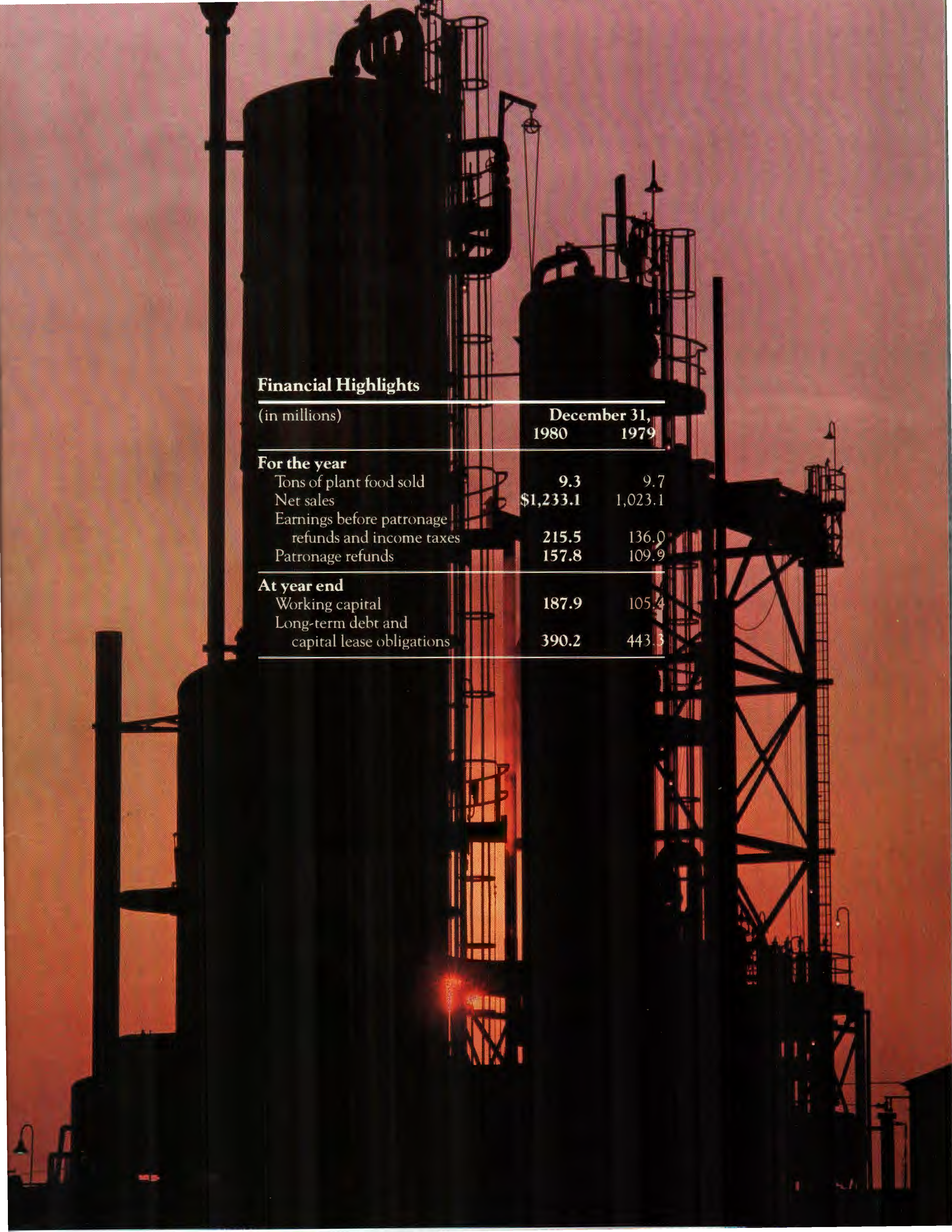
CF Industries, Inc.
...providing nutrients to recycle the earth



As depicted on the cover of this report, CF Industries is a major chemical manufacturer and distributor of plant food nutrients for North America's most vital industry... agriculture.

Supplies of nitrogen, phosphate and potash fertilizers enable North American farmers to recycle the earth through the seasons of the year, providing maximum yields of food and fiber for domestic and international markets.

CF Industries is organized as an interregional cooperative with 18 member/investors, regional farm supply cooperatives, throughout the United States and in Ontario and Quebec. The CF system includes phosphate rock mining and natural gas production, nine nitrogen and phosphate chemical manufacturing complexes, and a vast network of storage and distribution terminals in major crop producing regions. The Company also utilizes a variety of transportation modes, including trucks, river barges, ocean-going vessels, a fleet of leased railcars, and an underground pipeline to meet the service requirements of its member/investors.



Financial Highlights

(in millions)	December 31, 1980	1979
For the year		
Tons of plant food sold	**9.3**	9.7
Net sales	**$1,233.1**	1,023.1
Earnings before patronage refunds and income taxes	**215.5**	136.0
Patronage refunds	**157.8**	109.9
At year end		
Working capital	**187.9**	105.4
Long-term debt and capital lease obligations	**390.2**	443.3

President's Letter

A true measure of a corporation's flexibility and depth is how well it responds to the unexpected. Changing world events, natural and man-made disasters, and major equipment breakdowns plague all companies at one time or another. During such periods of adversity, the character and fiber of a company can be put to the ultimate test.

Throughout 1980, CF Industries, Inc. experienced a number of these unanticipated challenges. CF not only survived, but prospered. The Company achieved record sales and earnings for the year. Although the total volume of 9.3 million tons for all nitrogen, phosphate, and potash fertilizers was three percent below 1979, sales were $1.2 billion, 21 percent higher than the previous year. Earnings before patronage refunds and income taxes were a record $215 million.

To be sure, the improvement in fertilizer prices from the depressed levels of two years ago was a major factor that enabled CF to increase sales on slightly reduced volume. Higher prices, however, were only part of the story. The results could not have been achieved without innovative and creative decision making by CF's operating and management personnel. This success is a testimony to the inherent strength of the CF system and the people who operate it.

By far the greatest challenge that faced CF last year was the decreased member/investor demand for product, which was caused, in large part, by the Russian grain embargo and the extended drought that disrupted crop production in various parts of CF's market area.

In past years, CF had exported minimal tonnage offshore as an economical means of maintaining inventory balance within the distribution system. Last year, however, the Company took steps to aggressively penetrate the offshore market and was able to export some 905,000 tons of product, mostly urea and DAP, at attractive prices. This major effort by our marketing group permitted CF's plants to operate at maximum efficiencies throughout the year.

With the cyclical swings in product demand, it is clear that CF is involved in an international commodity market. It is also clear that while providing member product needs is the Company's prime reason for existence, CF has in place a viable mechanism to market the products that our member/investors cannot absorb.

CF also faced a number of challenges in phosphate manufacturing and distribution. Last year, the Plant City Complex experienced a major power outage and, at various times, Tampa Bay was blocked by two different vessel accidents which resulted in delays of sulfur shipments and required logistical adjustments to keep phosphate shipments moving. Despite these challenges, both the Plant City and the Bartow Complexes set new annual production records. Dedicated and well-coordinated efforts on the part of our Florida personnel were the reason for these achievements.

Strong teamwork and depth of experience were also in evidence at CF's Donaldsonville Nitrogen Complex during 1980. Last year the Louisiana complex set two world records for continuous operation: In ammonia production, one of the plants operated for 633 consecutive days without a turnaround. And a urea plant recorded a 474-day continuous run. These records were achieved as a result of well-trained personnel and intensive safety and maintenance programs. Plants this size are normally scheduled for annual two-week shutdowns for extensive inspection and maintenance.

1980 was also the year in which the construction and startup of uranium recovery plants at both Bartow and Plant City were completed. Phosphate rock contains minute quantities of uranium, which, until recently, could not be economically recovered.

In 1978, CF entered into an agreement with International Minerals & Chemical Corporation (IMC) to permit that company to recover 1.3 million pounds of uranium oxide each year from CF's phosphoric acid. Financing for the plants was provided by IMC. CF operates the plants under contract and has the opportunity to share in the long-term profitability of this project with no CF capital investment.

On another front, CF continues to be one of North America's largest distributors of potash through term purchase agreements with Central Canada Potash Co., Limited and other potash suppliers. During 1980, the Company added another important term contract for significant annual tonnage with Potash Corporation of Saskatchewan Sales Limited. This new contract provides additional assurance of adequate potash supplies for the foreseeable future.

In spite of its achievements, CF must look to the future, not the past, if it expects to continue a leadership position in the fertilizer industry. The Company operates in an intensely competitive industry that is becoming more complex due to increasing governmental interference in energy, environmental affairs, and markets.

To counter this disturbing trend, last year the Company expanded its Washington Public Affairs Office so that CF might effectively interface with the various Congressional committees and governmental agencies that could affect the operations of CF, the industry, and agriculture in general. In the past year, for example, the Public Affairs Staff was involved in such achievements as an inclusion of boiler fuel in the agricultural natural gas use exemption from incremental pricing, and the exemption of the fertilizer industry from "superfund" chemical spill clean up legislation.

Other challenges for the fertilizer industry are decreasing supplies of critical raw materials and increased competition from government-controlled and subsidized facilities in countries such as Mexico and Russia. In addition, the industry is both very capital intensive and highly cyclical, making it a prime victim of the ravages of inflation.

The fertilizer industry is capital intensive at all levels: mining, manufacturing, distribution, and retailing. Construction costs, for example, have escalated at phenomenal rates. A world-scale urea plant that had cost $15 million in the mid-1960's, and $55 million in the mid-1970's, is up to $90 million today and possibly $215 million by 1990. The installed costs of phosphate and potash facilities have increased at comparable rates. In addition, the costs of critical raw materials needed to produce chemical fertilizer products have all soared. In the past year, for example, sulfur has increased 52 percent, phosphate rock 14 percent, and the cost of natural gas has increased 21 percent.

Should the Reagan Administration succeed in its effort to deregulate the natural gas industry, gas costs for recently completed ammonia plants, already struggling to remain competitive, could possibly double. Such a move could prove fatal to a large segment of the domestic nitrogen industry competing with low-priced ammonia imports from Mexico and Russia where natural gas supplies are owned by the government. The issue of how much domestic nitrogen capacity should be preserved to adequately protect U.S. agri-business must be brought into the public debate.

In order to compete in today's changing economic, political, and social climate, the successful manager must be capable of identifying and addressing both today's and tomorrow's challenges.

CF has taken two significant steps designed to have a major influence on its future. The first step was the development of the Capital Structure Policy Plan approved by the Board of Directors in September. CF has developed a comprehensive plan that integrates the Company's more significant financial policies.

The capital structure goal of the Company is to limit the debt ratio to a maximum of 50 percent. Consistent with this goal, both a cash patronage policy and an investment policy were developed which are related to CF's capital structure.

The cash patronage policy recognizes the need to maintain a cushion of equity to withstand business cycles and avoid excessive financial leverage. Cash patronage will vary as the Company's debt ratio varies.

In addition, we believe that investments should be managed prudently. Consequently, the investment policy limits net new investment, on average, to the Company's earnings before patronage and taxes.

With these policies, management is confident CF can reduce its financial risk and improve its financial flexibility.

The second step which will have a positive impact on our operations was the development of CF's Strategic Management Program. Progressive business organizations are using strategic management to achieve their objectives in this era of unpredictability. Corporate mission, objectives, and resources must be related in the cold light of reality to the current and future business environment, especially the competition, in order to identify the Company's strengths and weaknesses and to develop and evaluate business strategies.

A Strategic Management Plan is being developed to utilize the organization's physical, financial, and human resources as effectively as possible to successfully accomplish the defined mission and objectives. The Strategic Management Plan will be implemented by a professional management process that will allocate resources, assign responsibilities, and measure performance. We see strategic management as a dynamic decision-making process that will require participation at all management levels.

Successful corporate programs and strategies do not just happen. Quite simply, corporate success means a company managed and operated by a talented group of people. Therefore, CF continues its commitment to management development and to the implementation of its Management Development Program. The Company continues to expand its internal training programs to provide a creative environment for generating innovative solutions to current and future challenges.

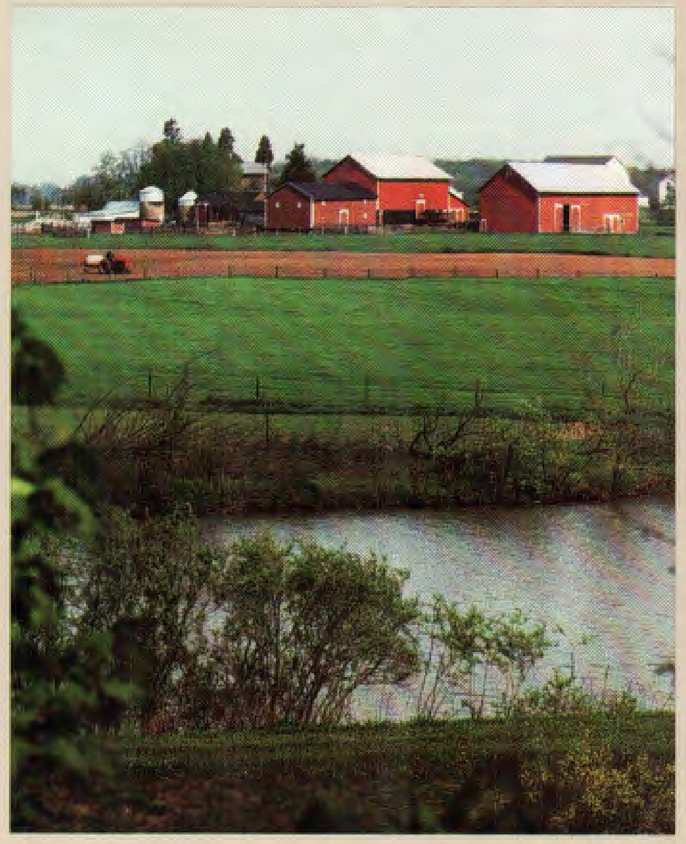
Management believes that the Capital Structure Policy Plan, the Strategic Management Program, and the Management Development Program will prove to be extremely important in meeting current and future member/investor demands for fertilizer products.

With the increased commitment to the prudent blending of operations and controls, the role of the Chief Financial Officer has been expanded. Lawrence H. Devereux, the newest member of CF's management group, joined the Company in September as Senior Vice President and Chief Financial Officer.

CF's 2,624 people are the reason the Company enjoyed the success of last year. Any unanticipated challenge that might arise during 1981, or further down the road, can be faced and successfully overcome by the combined efforts of the immense talent collected in the CF system and the support of its member/investors. With that support, and the continued dedication of our employees, CF is committed to remaining the most reliable and most economical source of chemical fertilizer available to the North American farmer.

R. R. Baxter

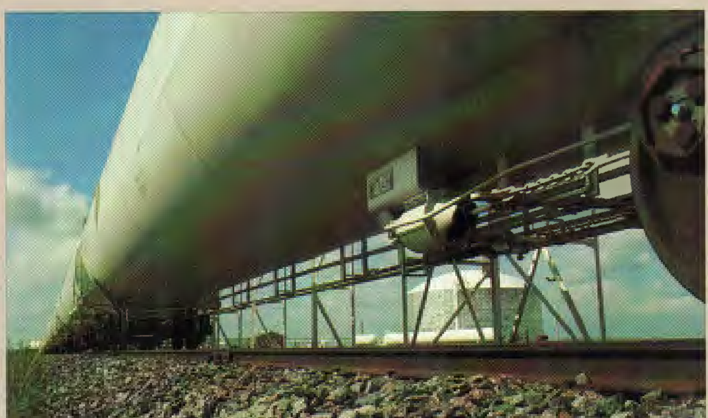
R. R. Baxter
President and Chief Executive Officer

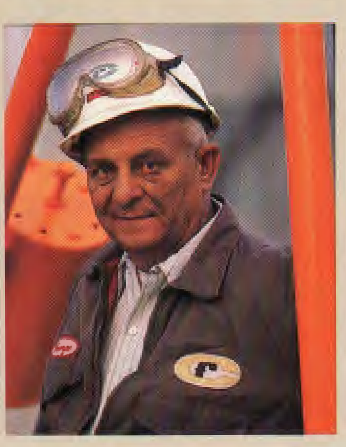


After winter's thaw, the gentle warmth of spring revitalizes the earth at a rapid tempo. The farmer, too, must move quickly to till and sow his land. An integral part of his work is the replenishment of soil nutrients through the application of chemical fertilizers. These nitrogen, phosphate, and potash nutrients are vital contributors to higher crop yields.

Loading at the Tampa terminal, (above) the M-V Jamie A. Baxter/CF-1 has a capacity of 26,500 short tons. During 1980, the integrated tug/barge completed 48 trips between Tampa and New Orleans while transporting more than 1.2 million tons of phosphate products across the Gulf. All CF dry-product warehouses are located along the cost-effective inland waterway system, while liquid-storage terminals may be served by water, rail, underground pipelines, or a combination of these modes of transportation.

Transportation & Distribution

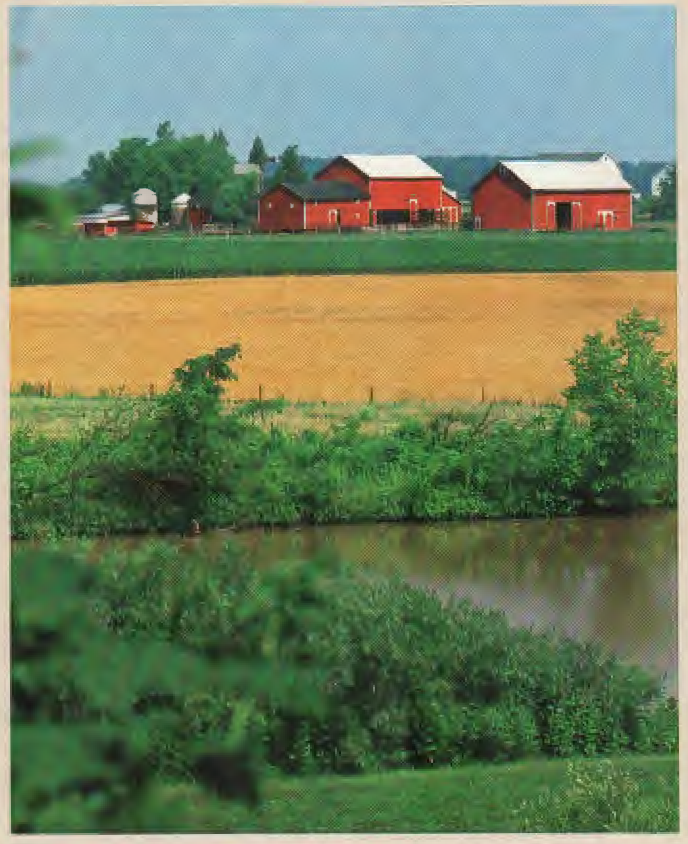




As farmers throughout North America prepare to plant their crops, CF Industries, Inc. already is engaged in its peak shipping season. In order to meet the logistical challenge of supplying a market area of 39 states and two Canadian provinces, CF has developed a diversified system of transportation and regional storage facilities.

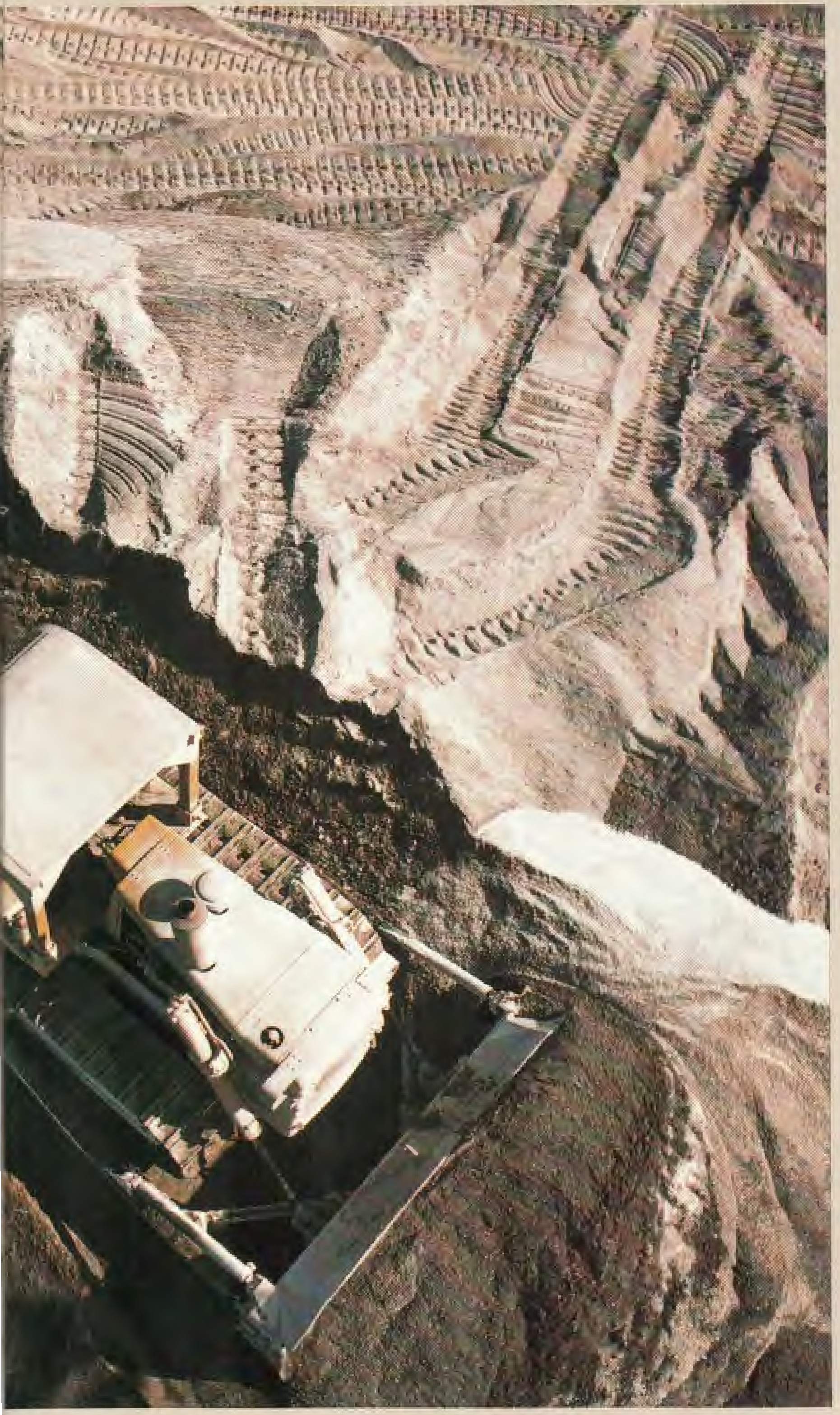
In the area of transportation, a fleet of specially-designed CF trucks moves phosphate products from the Plant City and Bartow plants to the Port of Tampa. From there, the Company ships the phosphate products to New Orleans in its integrated tug/barge. In addition, the Company has access to over 2,800 leased rail cars and is a major owner of Agri-Trans Corporation, an inter-regional barging cooperative operating on the Mississippi, Missouri, Illinois, and Ohio rivers.

The regional storage facilities consist of a network of owned or leased terminals and warehouses. These facilities are located in major farming regions and have a combined storage capacity of over 1.5 million tons. Last year, CF moved over 9.3 million tons of nitrogen, phosphate, and potash products.



The tempo slows with the summer sun . . . but only temporarily. Each week, the crops inch their way up from the rich soil. Already the golden winter wheat is ready for harvest, while the green spring corn awaits its turn to mature.

Phosphate Mining & Manufacturing

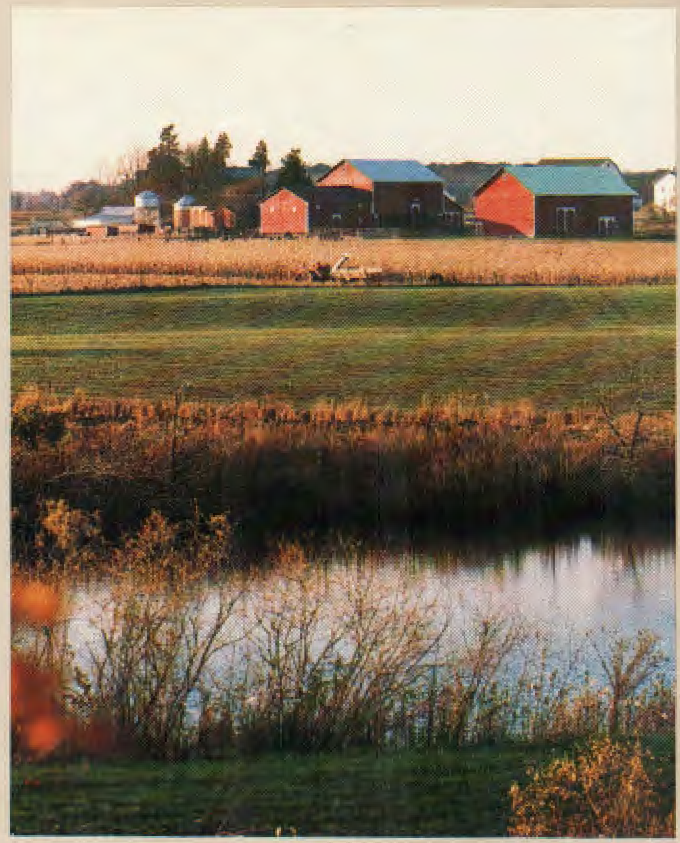


Giant tracks from an earth moving machine (left) crisscross a phosphate rock pile at the Plant City Complex. Last year CF distributed more than three million tons of phosphate fertilizer products, enough to satisfy the total phosphate requirements of three major corn belt states–Iowa, Illinois, and Indiana. 1980 was also the year that the uranium recovery plants at Bartow and Plant City became operational (top and bottom).

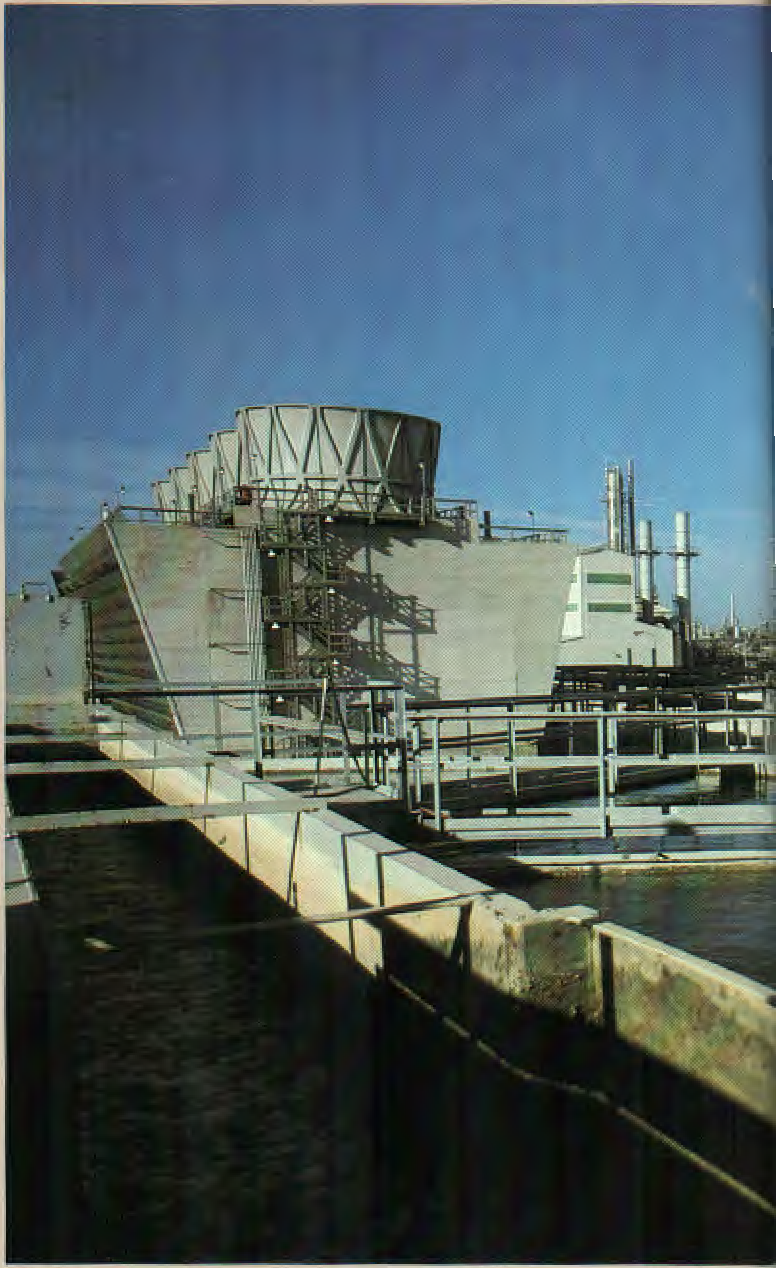
CF's phosphate operations are located in central Florida. Manufacturing phosphate means chemically processing phosphate rock into a nutrient which can be readily absorbed by the plant. Continuous quality control programs guarantee that farmers receive nutrients which provide the maximum agronomic benefit when blended into a nitrogen-phosphate-potash nutrient mix.

Production records were set last year at CF's two world-scale phosphate manufacturing facilities at Bartow and Plant City, Florida. The Company's phosphate rock mining operations, located at the Hardee Phosphate Complex, also reached its capacity of one million tons/year for the first time in 1980.

Phosphate rock contains traces of uranium, which are concentrated and dissolved in the phosphoric acid when the rock is reacted with sulfuric acid. Two uranium recovery projects constructed for International Minerals & Chemical Corporation at Bartow and Plant City were completed and became operational last year. Approximately 1.3 million pounds of uranium oxide are expected to be recovered each year from both facilities.



Relaxing golden shades of autumn belie the urgency in the air. The farmer must work quickly to harvest his fields before the cold wind of winter once again blows down from the north. Even in his haste, the farmer knows that the combination of seed, plant food, hard work, and good weather have made this harvest one of his best. Soon after the harvest, the farmer will begin his fall plowing and fertilization to prepare the soil for next year's crops.



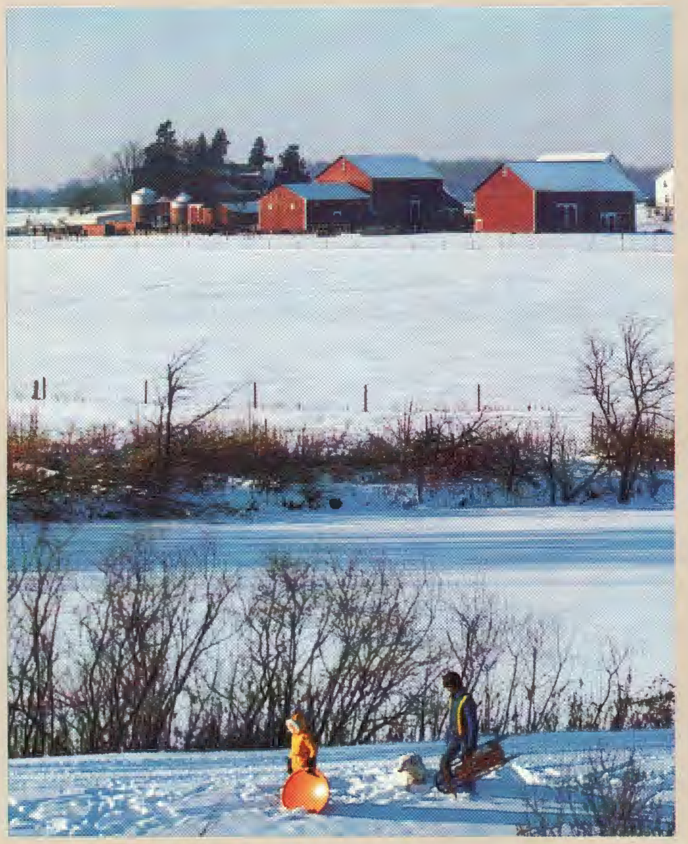
Nitrogen & Potash

The Donaldsonville Nitrogen Complex, (extreme left), represents seven percent of total domestic nitrogen capacity. There are many critical steps in the production of nitrogen fertilizer products, whether in the lab (left) or in the tall stacks (above) of CF's Terre Haute Nitrogen Complex.

The air we breath is 75 percent nitrogen. However, it's only through precisely controlled chemical reactions that this nitrogen can be converted to forms beneficial to soil and crops. Nearly four million tons of nitrogen products were produced by CF facilities during 1980.

Located on the Mississippi River between New Orleans and Baton Rouge, CF's Donaldsonville Nitrogen Complex is one of the world's largest nitrogen complexes. The Donaldsonville Complex includes four anhydrous ammonia plants, two granular urea plants, and a urea ammonium nitrate (UAN) solutions plant.

In addition to supplying nitrogen and phosphate products from its own manufacturing facilities, CF is also one of North America's largest suppliers of potash fertilizer. Last year the Company distributed over 2.2 million tons of potash products under term purchase agreements with both U.S. and foreign potash producers.



Winter's white blanket conceals any sign of last year's crops. For the farmer, this pivotal season is a time of reflection and planning. The CF system, however, is already in motion, filling orders from its 18 member companies to ensure that next spring the North American farmer is well supplied with the necessary plant food nutrients that he will need for his fields.

The Control Center of the CF system is its International Headquarters located in Long Grove, Illinois. From here, various departments coordinate the manufacturing and distribution of chemical fertilizer products from plant to member distribution outlets.

Work has begun on a 75,000-square-foot addition to the Long Grove facility. This new addition will double the size of the building and is expected to be completed in mid-1982.

Financial Section

Management's Discussion and Analysis

CF experienced record sales of $1.2 billion in 1980, a 21% increase over 1979, CF's previous record year. The primary contributor to the increase was the nitrogen line which, aided by a favorable spring application season, showed an increase of 28% in sales revenue. Phosphate and potash products also showed increases in revenues, 16% and 12%, respectively. The record sales were primarily due to strengthening fertilizer prices. Total sales volume of 9.3 million tons represented a 3% decrease from the 1979 high. Decreases in phosphate and potash volumes were partially attributable to high spring selling prices and high interest rates, coupled with the expectation of low grain prices. These factors led to lower applications of phosphate and potash nutrients.

Production and distribution costs, which totaled $983.7 million in 1980, were profoundly impacted by mounting inflation. The average cost per ton of product sold for 1980 was $106, an increase of 23% over the 1979 cost. Raw material costs, which represent the most significant portion of CF's production costs, rose at a rate far in excess of that of general inflation. This was especially true for sulfur, which increased 52% in its per-unit cost.

Net interest expense of $23.3 million for 1980 was 51% below the 1979 level. Factors which contributed to this decrease included reduced debt, increased investments in marketable securities and additional interest capitalized as a result of new guidelines set forth in the Statement of Financial Accounting Standards No. 34, "Capitalization of Interest Cost."

General and administrative expense, net of management fees, increased $2.3 million, or 27%, over the 1979 expense. The increase was due both to inflation and a reduction in management fees resulting from discontinued CF management of Energy Cooperative, Inc. in mid-1980 and Agri-Trans Corporation in mid-1979.

CF's patronage distribution ratio was 50% cash and 50% in the form of patronage preferred stock. Total patronage refunds to members for the year ended December 31, 1980 were $157.8 million. The 1980 refunds represented 73% of earnings before patronage refunds and income taxes as compared to 81% in 1979. The lower percentage in 1980 resulted from greater non-member earnings which are not distributable as patronage.

Working capital at December 31, 1980 was $187.9 million, a 78% increase over the previous year. Throughout 1980, the Company pursued courses of action which efficiently utilized its available working capital. CF's efficiency in this regard was evidenced in a number of areas, such as accelerated accounts receivable collections. Additionally, CF earned $7.9 million in interest on its timely investment in marketable securities. Effective working capital usage can also be measured by the early retirement of $55.8 million of the Company's highest interest bearing long-term debt, resulting in reduced interest expense in 1980 and by the redemption of $14.0 million of patronage preferred stock. Property, plant and equipment additions of $34.2 million during 1980 were financed entirely from working capital as witnessed by the fact that CF entered into no new long-term financing agreements in 1980 and that all short-term borrowings were completely repaid at year end. CF plans to follow this same policy of financing capital asset additions with working capital in 1981.

Integrity and Reliability of Financial Data

The management of CF Industries, Inc. is responsible for the integrity of the financial data reported, including any estimates or judgments necessary in their preparation. In fulfilling this responsibility, the accompanying consolidated financial statements and related notes were prepared by management in conformity with generally accepted accounting principles. Where acceptable alternative accounting principles exist, the Company has selected the principle it believes to be preferable in the circumstances. In order to provide reliable accounting records and reasonable safeguards of assets, the Company maintains systems of internal accounting control. Internal accounting control is promoted by the selection and training of qualified personnel, by the establishment and communication of accounting policies and procedures, by conducting a formal program of internal audits and by the implementation of a Code of Corporate Conduct.

Arthur Young & Company, independent public accountants, has been engaged to render an opinion on the Company's consolidated financial statements based on an examination in accordance with generally accepted auditing standards. The report on that examination follows.

The Audit Committee of the Board of Directors, consisting of the members of the Executive Committee of the Board of Directors, meets with the independent public accountants and reviews audit plans and results, as well as management's actions taken in discharging its responsibilities for accounting, financial reporting and internal accounting control systems. To ensure independence, the independent public accountants have access to meet with the Audit Committee with or without the presence of management.

R. R. Baxter

R. R. Baxter
President and
Chief Executive Officer

Robert C. Liuzzi
Executive Vice President
and Chief Operating Officer

Report of Independent Public Accountants

Board of Directors
CF Industries, Inc.

We have examined the accompanying consolidated balance sheet of CF Industries, Inc. at December 31, 1980 and 1979, and the related statements of consolidated earnings, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of CF Industries, Inc. at December 31, 1980 and 1979, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Chicago, Illinois
February 13, 1981

Statement of Consolidated Earnings

(in thousands)	Years Ended December 31, 1980	1979
Net Sales	$1,233,107	1,023,149
Costs and Expenses:		
Production and distribution	983,651	831,337
General and administrative	10,720	8,452
Interest—net	23,265	47,332
	1,017,636	887,121
Earnings Before Patronage Refunds and Income Taxes	215,471	136,028
Patronage Refunds:		
Cash	78,879	21,987
Patronage preferred stock	78,879	87,938
	157,758	109,925
Earnings Before Income Taxes	57,713	26,103
Income Taxes	28,200	12,500
Net Earnings	$ 29,513	13,603

The Notes to Consolidated Financial Statements are an integral part of this statement.

Consolidated Balance Sheet

(in thousands)

Assets	December 31, 1980	1979
Current Assets:		
Cash	$ 6,726	7,621
Short-term investments	133,540	55,222
Accounts receivable	138,849	100,402
Notes receivable	5,948	4,463
Inventories	174,061	140,247
Prepaid expenses	2,145	1,734
Total current assets	461,269	309,689
Investments in Jointly Owned Companies	45,296	45,456
Property, Plant and Equipment—Net	617,828	634,809
Other Assets	64,999	73,666
	$1,189,392	1,063,620

Liabilities and Stockholders' Equity

Current Liabilities:		
Accounts payable and accrued expenses	$ 146,631	106,700
Patronage refunds payable in cash	78,879	21,987
Income taxes	11,996	2,310
Current portion of long-term debt—		
Installments due within one year	22,613	20,778
Early retirement	—	37,500
Current portion of capital lease obligations	13,230	15,048
Total current liabilities	273,349	204,323
Long-Term Debt	262,741	301,104
Capital Lease Obligations	127,450	142,199
Deferred Income Taxes	41,366	26,890
Stockholders' Equity	484,486	389,104
	$1,189,392	1,063,620

The Notes to Consolidated Financial Statements are an integral part of this statement.

Statement of Consolidated Stockholders' Equity

(dollars in thousands)

	Years Ended December 31, 1980 and 1979						
	Senior Preferred Stock	Special Preferred Stock	Patronage Preferred Stock	Common Stock	Paid-In Surplus	Retained Earnings	Total
Balance at December 31, 1978	$ 500	2	223,969	19	932	62,300	287,722
Add (deduct):							
Redemption of 2,500 shares	(250)						(250)
Issuance of 5,000 shares			500				500
Cash redemptions		(2)	(189)	(1)			(192)
879,385 shares issued as patronage refunds			87,938				87,938
Cash redemption					(170)		(170)
Net earnings						13,603	13,603
Cash dividends on senior preferred stock						(47)	(47)
Balance at December 31, 1979	250	—	312,218	18	762	75,856	389,104
Add (deduct):							
Redemption of 2,500 shares	(250)						(250)
Issuance of 18,000 shares			1,800				1,800
Cash redemptions of 143,813 shares			(14,381)				(14,381)
788,789 shares to be issued as patronage refunds			78,879				78,879
Cash redemption					(170)		(170)
Net earnings						29,513	29,513
Cash dividends on senior preferred stock						(9)	(9)
Balance at December 31, 1980	$ —	—	378,516	18	592	105,360	484,486

The Notes to Consolidated Financial Statements are an integral part of this statement.

Statement of Consolidated Changes in Financial Position

(in thousands)	Years Ended December 31, 1980	1979
Working Capital Was Provided From:		
Operations—		
Net earnings	$ 29,513	13,603
Charges (credits) not involving working capital—		
Patronage refunds in the form of preferred stock	78,879	87,938
Depreciation, depletion and amortization	56,324	59,827
Deferred income taxes	14,476	10,409
Patronage refunds received in stock and equities	(1,471)	(1,689)
Working capital from operations	177,721	170,088
Increase in long-term debt and capital lease obligations	—	2,888
Decrease in long-term notes receivable	6,192	2,449
Sale of investments in jointly owned companies—net	794	895
Issuance of patronage preferred stock	1,800	500
Total working capital provided	186,507	176,820
Working Capital Was Required For:		
Reduction of long-term debt and capital lease obligations including early retirements	53,112	73,146
Additions to property, plant and equipment—net	34,224	30,604
Increase in other assets—net	1,807	4,780
Redemptions of stock and paid-in surplus and cash dividends paid	14,810	659
Total working capital used	103,953	109,189
Increase in Working Capital	$ 82,554	67,631
Increase (Decrease) in Working Capital by Component:		
Cash and short-term investments	$ 77,423	52,056
Accounts receivable	38,447	12,913
Notes receivable	1,485	(2,070)
Inventories	33,814	(19,549)
Prepaid expenses	411	(6,301)
Short-term loans	—	83,000
Accounts payable and accrued expenses	(39,931)	4,218
Patronage refunds payable in cash	(56,892)	(21,987)
Income taxes	(9,686)	(1,057)
Current portions of long-term debt and capital lease obligations	37,483	(33,592)
Increase in Working Capital	$ 82,554	67,631

The Notes to Consolidated Financial Statements are an integral part of this statement.

Notes to Consolidated Financial Statements

(dollars in thousands)

Significant Accounting Policies

Consolidation The consolidated financial statements include the accounts of CF Industries, Inc. and all wholly-owned subsidiaries after elimination of intercompany transactions.

Short-term investments Short-term investments consist principally of certificates of deposit, time-deposits and commercial paper at cost, which approximates market.

Inventories Inventories are stated at the lower of cost or market. Cost is determined on an average or first-in, first-out basis while market is based on estimated net realizable values.

Investments Investments in jointly owned companies are accounted for at cost. CF's share of undistributed earnings of the companies, if any, would be recognized upon distribution thereof or liquidation of the companies.

Property, plant and equipment Property, plant and equipment, including property under capital leases, are stated at cost or the present value of lease payments at the inception of the lease. Depreciation of owned assets is computed using the straight line method over the respective estimated useful lives of the assets. Property under capital leases is depreciated over the terms of the leases, which approximate the estimated useful lives of the respective assets.

Retirement benefits The Company and its subsidiaries maintain retirement plans covering substantially all employees. Retirement plan costs are accrued and funded in amounts equal to annual normal costs determined by consulting actuaries.

Exploration and development costs All costs of acquiring, exploring and developing domestic gas, oil and mineral reserves, including real estate taxes and interest, are capitalized using the full-cost method of accounting. Such costs are charged to operations on a units-of-production method based on the estimated aggregate proved reserves.

Patronage refunds received Patronage refunds from banks for cooperatives are recorded on receipt and are reflected in operations as a reduction of interest expense.

Income taxes Deferred income taxes relate to timing differences between income tax and financial statement reporting principally for exploration and development costs, income from sales through a domestic international sales corporation, interest and depreciation of certain assets. Investment tax credits are accounted for on the flow-through method.

Retirement Plan Costs

Retirement plan costs for the years ended December 31, 1980 and 1979 were $3.1 million and $2.4 million, respectively. A comparison of accumulated plan benefits, as determined by CF's consulting actuaries, and plan net assets for the Company's retirement plans is presented below.

	January 1, 1980	1979
Actuarial present value of accumulated plan benefits:		
Vested	$ 9,983	8,238
Nonvested	1,464	1,433
	$11,447	9,671
Net assets available for benefits	$17,735	14,540

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 5.5% per annum, compounded annually.

Interest Expense—Net

Net interest expense for the years ended December 31, 1980 and 1979 follows:

	1980	1979
Long-term debt	$32,137	40,966
Capital lease obligations	11,364	12,620
Short-term loans	938	5,406
	44,439	58,992
Less:		
Capitalized interest	12,198	7,697
Interest income	7,914	2,355
Patronage refunds from banks for cooperatives	1,062	1,608
	$23,265	47,332

The adoption of the guidelines set forth in Statement of Financial Accounting Standards No. 34 results in additional capitalized interest of $4.5 million in 1980 over the amount that would have been capitalized under CF's previous method, primarily due to the compounding of interest. The effect of such change on net earnings is not significant.

Patronage Refunds

As a pre-existing obligation of the Company, patronage refunds are authorized annually by the Stockholders pursuant to recommendations of the Board of Directors. The allocation of patronage to members is based upon earnings from member business in specific product categories and the amount of business each member transacts with the Company within each product category.

Income Taxes

As a non-exempt cooperative, cash and stock patronage refunds to members are deductible for income tax purposes provided at least twenty percent of the total patronage distribution is in the form of cash. Earnings retained and not distributed as patronage refunds to members are taxed at normal corporate rates.

The Company's income tax provision consists of the following:

	1980	1979
Current:		
Federal tax provision	$10,386	460
Investment tax credits	(1,422)	—
Provision for state and Canadian income taxes	4,760	1,631
	13,724	2,091
Deferred	14,476	10,409
	$28,200	12,500
Effective tax rate	49%	48%

Operations for the six months ended December 31, 1978 resulted in a loss for Federal income tax purposes of approximately $10 million. Of this loss, $3.8 million was applied on a carryover basis against 1979 earnings and $.6 million against 1980 earnings. The balance will be applied against future earnings ratably through 1988 and will not have a significant effect on future net earnings. Operations in 1979, including the effect of the 1978 carryover, resulted in a loss for Federal income tax purposes which gave rise to a refund of income taxes paid of $1.5 million.

Deferred income taxes included in the consolidated balance sheet at December 31, 1979 were reduced by $7.0 million of investment tax credit carryovers from prior years which were fully utilized to offset 1980 Federal income tax liabilities. Such utilization had no effect on 1980 net earnings of the Company. Additional investment tax credits of approximately $1.4 million arose from property additions placed in service and from allocations from other cooperatives during the current year. All of these credits were applied as a reduction of the Company's 1980 Federal income tax provision and liability. In 1979, investment tax credits of approximately $1.8 million were allocated to the Company's members in accordance with Federal tax laws.

The Company's consolidated Federal income tax returns for the fiscal years ended June 30, 1977 and 1978 and the six months ended December 31, 1978 are currently being examined by the Internal Revenue Service. No adjustments have been proposed to date which would have a material effect on the Company's consolidated financial statements. The Company is contesting additional assessments relating to 1974 and has reached a tentative settlement with the government. This settlement will be finalized upon completion of the current Internal Revenue Service examination.

The Company believes that adequate provision has been made for any potential income tax liabilities.

Accounts Receivable

The components of accounts receivable, which result primarily from the sale of fertilizer to members, follows:

	1980	1979
Trade:		
Member	$113,972	78,204
Non-member	11,643	9,718
Other	13,234	12,480
	$138,849	100,402

Inventories

Inventories represent fertilizer on hand at year-end that is available for shipment, as well as catalyst, spare parts, raw materials and supplies at various manufacturing locations.

	1980	1979
Fertilizer	$130,149	104,285
Catalyst, spare parts, raw materials and supplies	43,912	35,962
	$174,061	140,247

Short-Term Lines of Credit

Total short-term lines of credit available and unused at December 31, 1980 were $125 million. There are no commitment fees under these agreements and interest rates charged on borrowings represent the lending institutions' prime interest rates.

Notes (continued)

Investments in Jointly Owned Companies

In order to secure long-term supplies of materials and services for its members, CF Industries has made investments in various supplier companies. Investments in these companies have changed over time consistent with CF's needs. Investments in jointly owned companies were as follows:

	1980	1979
Canadian Fertilizers Limited	$37,624	38,663
Agri-Trans Corporation	7,672	6,793
	$45,296	45,456

Canadian Fertilizers Limited The Company owns 49% of the voting common stock and 77% of the nonvoting preferred stock of Canadian Fertilizers Limited (CFL). CF also manages the assets of CFL under an agreement expiring in 1992. Under existing long-term agreements, CF is obligated to purchase minimum annual volumes of nitrogen products through 1992. Under certain circumstances, CF may be called on to provide advances for purchase of product should CFL be unable to satisfy current debt service from operations and other sources. Certain information from CFL's December 31 financial statements follows:

	1980	1979
Financial Position:		
Working capital	$ 3,134	3,467
Total assets	181,934	195,945
Long-term debt	106,333	121,333
Shareholders' equity	48,921	48,921
Operations:		
Sales	112,828	91,880
Costs and expenses	99,880	89,475
Earnings before patronage refunds	12,948	2,405
Patronage refunds	12,948	2,405

CFL's patronage to CF of $10.4 million in 1980 and $1.9 million in 1979 has been applied as a reduction of production and distribution costs.

Agri-Trans Corporation The Company holds a 37% interest in this inter-regional barging cooperative. Continued availability of Agri-Trans' transportation capacity is provided by a long-term contract through 1990. Summary information from Agri-Trans' June 30 financial statements follows:

	1980	1979
Financial Position:		
Working capital (deficit)	$ (1,669)	(3,387)
Total assets	60,723	59,935
Long-term debt and capitalized lease obligation	25,474	26,590
Shareholders' equity	22,571	19,483
Operations:		
Revenues	54,141	37,124
Costs and expenses	49,045	35,096
Earnings before patronage refunds and income taxes	5,096	2,361
Patronage refunds	3,566	1,739

Agri-Trans' patronage to CF of $1.3 million in 1980 and $.7 million in 1979 has been applied as a reduction of production and distribution costs.

Property, Plant and Equipment—Net

Property, plant and equipment consisted of the following at December 31, 1980 and 1979:

	1980	1979
Land and mineral reserves	$161,622	148,803
Manufacturing plants:		
Owned	463,448	457,104
Capitalized leases	127,091	127,056
Distribution facilities:		
Owned	78,191	70,441
Capitalized leases	80,987	83,475
Construction in progress	11,783	8,129
	923,122	895,008
Less accumulated depreciation and depletion:		
Owned	238,536	205,776
Capitalized leases	66,758	54,423
	$617,828	634,809

Other Assets

The components of other assets at December 31, 1980 and 1979 are detailed below.

	1980	1979
Joint venture expenditures for natural gas exploration and development—net	$38,707	37,200
Investments in banks for cooperatives	19,399	21,783
Long-term receivables	1,490	1,691
Long-term installment receivable due semi-annually based on CF's purchases of product from Central Canada Potash Co. Limited	—	6,192
Joint venture expenditures for development of potash reserves	—	1,508
Other	5,403	5,292
	$64,999	73,666

CF's participation in a joint venture for the exploration and development of natural gas reserves in the United States has resulted in an interest in 44 productive wells of a total 87 wells completed since inception of the venture. Net operating margins from the venture of $1.3 million and $3.0 million in 1980 and 1979, respectively, are included in production and distribution costs. The present worth of the estimated future net income from the aggregate proved reserves associated with productive wells is in excess of the carrying value.

Major classes of capitalized costs resulting from joint venture expenditures at December 31, 1980 and 1979 are detailed in the table below.

	1980	1979
Mineral interest in properties:		
Proved	$ 1,237	1,169
Unproved	2,023	2,144
Wells and related equipment and facilities:		
Completed	40,544	37,085
Uncompleted	2,456	—
Fees and other	9,962	9,198
	56,222	49,596
Less accumulated depreciation and depletion	17,515	12,396
	$38,707	37,200

A summary of costs incurred for natural gas exploration and development for the years ended December 31, 1980 and 1979 follows:

	1980	1979
Property acquisition	$ 67	8
Exploration	61	1,213
Development	6,498	954
Lifting	3,761	2,168

Long-Term Debt

Long-term debt at December 31, 1980 and 1979 follows. The current portion at December 31, 1979 included an early retirement of $37.5 million of variable interest rate notes. Additionally, during 1980, $18.3 million of variable interest rate notes were paid in advance. At December 31, 1980 there was $50 million of credit available under a term loan agreement expiring through 1985.

	1980	1979
Variable interest rate notes (weighted average interest rate of 15.0% at December 31, 1980) subject to prime rate fluctuations, secured by manufacturing plants, due in semi-annual installments through 1990	$100,210	166,820
9.75% first mortgage bonds secured by a lien on phosphate rock reserves, due $5.0 million annually from 1981 through 1986 and $7.0 million annually through 1996	100,000	100,000
9.60% first mortgage note secured by a lien on a phosphate complex, due $4.0 million annually through 1990 with the balance payable in 1991	42,000	46,000
8.625% to 9.875% mortgage notes secured by various distribution facilities, due monthly through 2003	18,338	18,606
9.0% promissory notes secured by a secondary lien on phosphate rock reserves, due $2.8 million annually through 1984 with the remainder due in 1985	14,566	17,366
7.5% to 8.5% industrial revenue bonds, due through 1991	9,740	9,840
Other	500	750
Total debt	285,354	359,382
Less current portion	22,613	58,278
	$262,741	301,104

Along with liens specified in the table, certain borrowings are also collateralized by assignments of product purchase agreements, current assets totaling approximately $313 million at December 31, 1980 and substantially all property, plant and equipment. Maintenance of compensating cash balances, specified working capital and net worth levels, specified debt-equity ratios and investments in banks for cooperatives are also required. Furthermore, certain loan agreements contain limitations restricting cash patronage refunds, acquisitions and disposals of significant noncurrent assets, lease obligations, additional long-term debt and redemptions of capital stock.

Notes (continued)

Long-term debt maturities for the four years succeeding December 31, 1981 follows:

	Maturities
1982	$23,001
1983	24,032
1984	27,086
1985	27,689

Leases

The present value of future minimum capital lease payments and the future minimum lease payments under noncancelable operating leases at December 31, 1980 are:

	Capital Lease Payments	Operating Lease Payments
1981	$ 21,271	8,809
1982	22,765	7,940
1983	15,734	5,816
1984	15,178	4,347
1985	14,940	2,725
Thereafter	119,518	5,597
Future minimum lease payments	209,406	35,234
Equivalent interest	68,726	
Present value	140,680	
Less current portion	13,230	
	$127,450	

Rent expense was $10.5 million for the year ended December 31, 1980 and $9.2 million for 1979. These amounts were net of railroad car lease mileage credits of $4.4 million and $4.7 million, respectively.

Operating leases include long-term noncancelable agreements covering certain properties and equipment with remaining basic terms of up to thirteen years. Future operating lease payments on railroad cars have been reduced by mileage credits estimated at $5.1 million in 1981 with decreasing amounts thereafter. Some leases contain escalation clauses based on increased costs and have renewal or purchase options at fair rental or market values. The Company is generally obligated to pay for the cost of property taxes, insurance and maintenance.

Stockholders' Equity

Included in stockholders' equity at December 31, 1980 and 1979 were the following shares of capital stock:

	1980	1979
$100 par value:		
7½% cumulative senior preferred stock—		
Authorized	5,000	5,000
Issued	—	2,500
8% special preferred stock—		
Authorized	500,000	500,000
Issued	—	—
Patronage preferred stock—		
Authorized	10,000,000	10,000,000
Issued or to be issued	3,785,160	3,122,184
$1,000 par value:		
Common stock—		
Authorized	100	100
Issued	18	18

The 7½% cumulative senior preferred stock has been redeemed at par value in annual installments of 2,500 shares ($250,000).

The 8% special preferred stock was authorized and issued to certain stockholders to comply with provisions of Canadian tax laws in regard to reincorporation of the Company as a Delaware Corporation in January, 1979. This series was redeemed at par value during 1979.

Patronage preferred stock consists of initial member investments and annual patronage issues. In addition to patronage activity, a Member Investment Plan exists which seeks to adjust on an equitable basis each member's current investment in CF Industries to correspond with the volume of business transacted by each member. Each member's actual proportionate share of stockholders' equity is compared with its required proportionate share as defined in the Plan. Under-invested members purchase for cash, at par value, shares of patronage preferred stock held by over-invested members. The Plan adjusts each member's percentage of ownership but does not affect the total stockholders' equity.

Litigation and Regulatory Matters

In May, 1977, CF Industries and another cooperative filed suit in the U.S. District Court for the Western District of North Carolina against an interstate natural gas pipeline company for damages resulting from curtailments of natural gas supplies at the North Carolina Nitrogen Complex. In December, 1978, a jury returned a verdict against the pipeline company. On February 16, 1979, a judgment was entered against the defendant awarding damages of $23.8 million, plus $1.9 million of prejudgment interest on certain portions of the award. Interest continues to accrue at a statutory rate. Cross-appeals have been filed, and the Court of Appeals has referred certain issues in the case to the Federal Energy Regulatory Commission for its advice, however, no decision on the merits has been made by the Court of Appeals. Accordingly, the effects of recovery, if any, have not been recorded in the accompanying consolidated financial statements except for applicable legal expenses ($1.9 million) which have been deferred.

CF Industries is from time to time subject to ordinary, routine legal proceedings incident to the usual conduct of its business. The Company is also involved in proceedings regarding public utility and transportation rates, environmental matters, taxes, and permits relating to the operations of various plants and facilities. CF Industries believes that the ultimate outcome, if any, which might arise due to these proceedings would not have a material effect on CF's consolidated financial position or results of operations.

Supplementary Changing Price Data (Unaudited)

In response to the 1970's trend of continued rising inflation, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (FAS) No. 33, "Financial Reporting and Changing Prices," in September of 1979. The effects of rising inflation have caused serious concern among users of financial data concerning the ability of the primary historical cost financial statements to adequately measure the impact of changing prices on results of operations and financial position. FAS No. 33 sets forth guidelines for supplemental reporting using two methods of measuring the effects of price changes on financial data: constant dollar and current cost.

The constant dollar method adjusts selected financial data for the effects of general inflation by restating the data into dollars having equal (i.e., constant) general purchasing power. The adjustments to restate costs for the results of general inflation are derived by converting cost of goods sold and depreciation, depletion and amortization into dollars with purchasing power equivalent to the average purchasing power of the dollar for 1980, as measured by the Consumer Price Index for all Urban Consumers (CPI-U).

The current cost method of reporting is designed to show the effect on income of the difference between historical cost and the specific prices (current cost) of producing existing inventories and replacing depreciable assets, some of which are affected by conditions other than inflation (e.g., supply and demand, technological improvement and changes in productivity). In determining applicable current cost information specific to CF, both externally generated indices and actual and estimated costs of replacement were used.

Both constant dollar and current cost reporting requires maintenance of the same depreciation methods and depreciable lives of assets as those used in the primary financial statements. The guidelines specified in FAS No. 33 require only inventories, property, plant and equipment, cost of goods sold, and depreciation, depletion and amortization to be adjusted for the effects of general inflation and specific price changes. However, the following financial information also contains an adjustment to patronage refunds. The adjustment is necessary due to the nature of and the manner in which patronage refunds are determined. It is assumed that any change in earnings before patronage refunds and income taxes would cause a corresponding change in the amount of patronage refunds declared. Other items of revenue and expense appearing in the primary financial statements are assumed to have occurred proportionately throughout the year and, as such, are considered to be already stated in both current cost and average 1980 dollars.

FAS No. 33 also requires two additional measures of inflation. The first is the determination of the gain or loss from holding monetary items. A monetary asset is money, or claim to receive a sum of money, the amount of which is determinable or fixed without reference to future prices of specific goods or services. A monetary liability is an obligation to pay a similarly fixed sum of money. In times of rising prices an economic loss is associated with holding monetary assets since the same number of dollars can purchase fewer goods and services. Conversely, a gain is associated with holding monetary liabilities since dollars with less purchasing power can be used to satisfy obligations. In 1980, CF benefited $52.4 million by being in a net monetary liability position primarily attributable to borrowings.

The second additional measure of inflation reflects the difference between the increase in specific prices of inventories and property, and the effect of the general inflation rate, as measured by the CPI-U, on inventories and property. For CF, the increase in specific prices of inventories and property exceeded inflation's impact on these assets by $21.9 million in 1980.

FAS No. 33 information is being presented in an experimental fashion and both the methods of preparation and interpretation of the information are likely to be modified over the next several years. Preparation of the data required management to make numerous assumptions, judgments and interpretations regarding the historical data and formulae to be used. Accordingly, such assumptions and judgments may not be the same as those used by other companies, therefore, comparison with similar data of other companies may not be meaningful.

The information presented is subject to a number of limitations. The financial data are adjusted only to a limited extent, rather than on a comprehensive basis. The restated information makes no allowance for the customary relationship between cost increases and changes in selling prices. Also, for the most part, the current cost data represent in-place and in-kind replacement of assets. No consideration has been given to the replacement of assets with a different type, to improved operating cost efficiencies of replacement assets and to other similar situations. The current costs used, while believed reasonable, are necessarily subjective. They do not necessarily represent amounts for which the assets could be sold, or costs which will be incurred, or the manner in which actual replacement of assets will occur.

Supplementary Financial Data Adjusted for Effects of Changing Prices for Year Ended December 31, 1980 (Unaudited)

(dollars in thousands)	As Reported in the Primary Statements	Adjusted For General Inflation (Constant Dollar)	Adjusted For Specific Prices (Current Costs)
Statement of Consolidated Earnings:			
Net sales	$1,233,107	1,233,107	1,233,107
Costs and expenses—			
Production and distribution	983,651	1,037,299	1,085,928
General and administrative	10,720	11,229	11,293
Interest—net	23,265	23,265	23,265
	1,017,636	1,071,793	1,120,486
Earnings before patronage refunds and income taxes	215,471	161,314	112,621
Patronage refunds	157,758	103,601	54,908
Earnings before income taxes	57,713	57,713	57,713
Income taxes	28,200	28,200	28,200
Net earnings	$ 29,513	29,513	29,513
Selected Financial Data:			
Depreciation, depletion and amortization	$ 56,324	96,917	123,707
Inventories	174,061	168,750	185,620
Property, plant and equipment—net	617,828	916,939	1,131,032
Unrealized gain from decline in purchasing power of net amounts owed		$ 52,355	
Increase in specific prices (current cost) of inventories and property, plant and equipment held during 1980		$172,760	
Less effect of increase in general price level		150,841	
Excess of increase in specific prices over increase in the general price level		$ 21,919	

Supplementary Financial Data Adjusted for Effects of Changing Prices in Average 1980 Dollars (Unaudited)

(dollars in thousands)	December 31, 1980	December 31, 1979	Six Months 1978	June 30, 1978	June 30, 1977
Net sales	$1,233,107	1,161,514	412,031	882,828	888,361
Historical cost information adjusted for general inflation:					
Net earnings before patronage refunds and income taxes	$ 161,314	105,857	*	*	*
Net earnings	29,513	15,443	*	*	*
Net assets at end of period	808,022	720,494	*	*	*
Historical cost information adjusted for specific prices:					
Net earnings before patronage refunds and income taxes	$ 112,621	18,831	*	*	*
Net earnings	29,513	4,641	*	*	*
Net assets at end of period	979,865	924,528	*	*	*
Unrealized gain from decline in purchasing power of net amounts owed	52,355	79,430	*	*	*
Excess of increase in specific prices over increase in general price level	21,919	15,276	*	*	*
Average Consumer Price Index	246.8	217.4	199.9	187.6	175.8

*Data not required to be reported.

Additional Information Concerning Changing Prices (Unaudited)

	December 31, 1980	December 31, 1979	December 31, Six Months 1978	June 30, 1978	June 30, 1977
Proved and Probable Tons of Phosphate Rock:					
(in thousands)					
Balance beginning of year	95,722	96,318	96,408	96,408	96,408
Revisions of previous estimates	—	—	—	—	—
Extensions, discoveries and other additions	—	118	—	—	—
Mined	(1,082)	(714)	(90)	—	—
Balance end of year	94,640	95,722	96,318	96,408	96,408
Average Market Price of Phosphate Rock	$ 25	24	22	22	21

Proved reserves: The estimated quantities of commercially recoverable reserves that, on the basis of geological, geophysical, and engineering data, can be demonstrated with a reasonably high degree of certainty to be recoverable in the future from known mineral deposits by either primary or improved recovery methods.

Probable reserves: The estimated quantities of commercially recoverable reserves that are less well defined than proved reserves and that may be estimated or indicated to exist on the basis of geological, geophysical, and engineering data.

Supplementary Gas and Oil Reserves Data (Unaudited)

CF is participating in a joint venture to locate natural gas in the United States. The Company accounts for its joint venture expenditures on the full-cost method of accounting. The following table shows CF's interest, after considering applicable reversionary interests, in proved developed and undeveloped natural gas and oil reserves. The estimates were prepared by independent geologists using engineering and geological methods generally accepted by the petroleum industry.

	Natural Gas 1980	Natural Gas 1979	Oil 1980	Oil 1979
	(in millions of cubic feet)		(in thousands of barrels)	
Proved Reserves:				
Balance beginning of year	24,366	32,191	425	637
Revisions of previous estimates	7,564	(2,839)	(226)	(132)
Extensions, discoveries and other additions	263	—	1	—
Production	(3,614)	(4,986)	(62)	(80)
Balance end of year	28,579	24,366	138	425
Proved developed reserves only, included above, at end of year	16,299	20,852	127	328

Summary of Financial and Operating Results

(dollars and tons in millions)	December 31, 1980	December 31, 1979	Six Months 1978	June 30, 1978	June 30, 1977
For The Period					
Tons of plant food sold	9.3	9.7	3.9	7.9	7.6
Net sales	$1,233.1	1,023.1	333.7	671.0	632.8
Costs and expenses	1,017.6	887.1	341.4	655.1	584.9
Earnings (loss) before patronage refunds and income taxes	215.5	136.0	(7.7)	15.9	47.9
Patronage refunds	157.8	109.9	—	12.4	7.3
Income taxes	28.2	12.5	(3.0)	2.4	6.5
Net earnings (loss)	$ 29.5	13.6	(4.7)	1.1	34.1
Earnings (loss) before patronage refunds and income taxes as a percent of net sales	17%	13%	(2)%	2%	8%
Patronage refunds as a percent of earnings before patronage refunds and income taxes	73%	81%	—	78%	15%
Working capital provided from operations	$ 177.7	170.1	19.6	64.9	65.2
Property, plant and equipment additions—net	34.2	30.6	21.6	85.1	189.2
Depreciation, depletion and amortization	56.3	59.8	28.5	47.6	31.1
At Period End					
Assets:					
Current assets	$ 461.3	309.7	272.6	263.3	194.6
Investments in jointly owned companies	45.3	45.4	45.8	59.9	60.2
Property, plant and equipment—net	617.8	634.8	656.9	661.7	620.9
Other assets	65.0	73.7	77.4	62.4	47.3
	$1,189.4	1,063.6	1,052.7	1,047.3	923.0
Liabilities and Stockholders' Equity:					
Current liabilities	$ 273.3	204.3	234.9	219.0	158.9
Long-term debt and capital lease obligations	390.2	443.3	513.6	518.6	462.2
Deferred income taxes	41.4	26.9	16.5	17.2	9.1
Stockholders' equity	484.5	389.1	287.7	292.5	292.8
	$1,189.4	1,063.6	1,052.7	1,047.3	923.0
Working capital	$ 188.0	105.4	37.7	44.3	35.7
Current ratio to one	1.69	1.52	1.16	1.20	1.22
Return on stockholders' equity*	55%	47%	(3)%	5%	18%
Number of employees	2,624	2,500	2,411	2,322	2,300

***Earnings (loss) before patronage refunds and income taxes as a percent of stockholders' equity at the beginning of the year.**

CF Officers (left to right)
Robert Scott, A. L. Holmes, Lawrence Devereux, Clarence Lynn

Frank Wyatt, John Lawrence, William Brier, Robert Liuzzi

Miller Dial, Malcolm Scott, R. R. Baxter, William Hawkins

Robert Robertson, George Shearon, Donald Borst

Marvin McClam
Lyman Johnson
Kenneth Baer
Loren Chalfin

Silas Hanson
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Frank de Lint

Raymond Young
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Don Jossy

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Al Oukrop
Hersey Dilday
William Pulliam
Harvey Strothmann

Duane Halverson
Robert Caldwell
Gene James
Maurice Lavallee

International Headquarters

Salem Lake Drive
Long Grove, Illinois 60047

Officers

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Chairman of the Board

William A. Hiller (Agway)
Vice Chairman of the Board

R. R. Baxter
President & Chief
Executive Officer

Robert C. Liuzzi
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Chief Operating Officer

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Senior Vice President, Strategic
Planning & Economics

Lawrence H. Devereux
Senior Vice President &
Chief Financial Officer

M. William Brier
Vice President, Public Affairs

Miller D. Dial
Vice President

William J. Hawkins
Vice President, Marketing &
Member Services

A. L. "Judge" Holmes
Corporate Vice President,
Manufacturing

John A. Lawrence
Vice President, Manufacturing-
Northern Region

Clarence E. Lynn, Jr.
Vice President,
Human Resources

Robert O. Robertson
Vice President, Engineering
& Projects

Malcolm S. Scott
Vice President, Manufacturing-
Florida Region

Robert K. Scott
Vice President & General
Counsel

George B. Shearon
Vice President, Manufacturing-
Louisiana Region

J. Frank Wyatt
Vice President—Treasurer

Member/Investors Directors & Stockholders

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William A. Hiller, Director
Michael J. Papai, Stockholder

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A. J. Oukrop, Director
Joseph E. Larson, Stockholder

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Montréal, Québec
Maurice Lavallée, Director
Louis-Philippe Poulin,
Stockholder

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Elton R. Smith, Stockholder

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Marvin McClam, Director
Hersey Dilday, Stockholder

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Emory H. Taylor, Stockholder

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Kenneth P. Baer, Director
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Philip F. French, Director
Robert Caldwell, Stockholder

Intermountain Farmers
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Robert W. Turley, Director
& Stockholder

Land O' Lakes, Inc.
Minneapolis, Minnesota
Duane Halverson, Director
William Kerkvliet, Stockholder

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Robert Hester, Stockholder

Midland Cooperatives, Inc.
Minneapolis, Minnesota
Stanley Lehman, Director
Silas G. Hanson, Stockholder

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Harvey Strothmann, Stockholder

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Robert A. Allgood, Stockholder

Tennessee Farmers Cooperative
LaVergne, Tennessee
William H. Mitchell, Director
J. Franklin Nix, Stockholder

The Ohio Farmers Grain
& Supply Association
Fostoria, Ohio
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Lyman Johnson, Stockholder

United Co-operatives of
Ontario
Mississauga, Ontario
Donald M. Moffatt, Director
Frank C. de Lint, Stockholder

Western Farmers Association
Seattle, Washington
Edward E. Crane, Director
Don W. Jossy, Stockholder

Executive Committee

Kenneth P. Baer
Philip F. French
William A. Hiller
Gene A. James
A. J. Oukrop
Raymond A. Young

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Miller D. Dial
Vice-President

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Mary T. Joyce
Public Affairs Representative

CF Industries, Inc.

1850 K STREET, N.W., SUITE 550
WASHINGTON, D.C. 20006
202/659-8470

March 25, 1981

file – Louisiana

Mr Morton C. Blackwell
Special Assistant to the President
The White House
Washington, DC 20515

Dear Mr. Blackwell:

Congratulations on your appointment as Special Assistant to the President. We are proud to have someone from Louisiana in such an important position.

I would like to take this opportunity to introduce myself as I do not believe we have met before, although we have many mutual friends in Louisiana including Ned Borie, who is one of my closest friends.

Before coming to Washington, DC, I spent fifteen years in Louisiana with CF Industries, a large fertilizer manufacturing cooperative. My wife, Dodie, is a native of Baton Rouge and a lifelong resident until last June when we came here. My present assignment is as Vice President in CF's Public Affairs office with responsibilities for contacts on Capitol Hill.

While in Louisiana, we were very active in Republican politics, having worked with now Congressman Henson Moore in the Nixon Campaign followed by Dave Treen's first try for Governor. I worked very hard to help get Henson Moore elected to Congress and was Finance Chairman for Mayor Jack Breaux in his bid for both Sheriff of East Baton Rouge Parish and Mayor of Baton Rouge. I was also active in helping to raise funds for Congressman Bob Livingston in his first race.

In 1979, I served as Finance Chairman, 6th District, in Governor Treen's campaign and later served in the Treen transition office in early 1980. I have continued to maintain very close ties with the Republican leadership in Louisiana including John Cade, Billy Nungesser, George Despot, and of course, Dave Treen.

All the above may sound like a resume, but rest assured, I am not looking for a position. At this point in time, my intent is to take early retirement in 1983, return to Louisiana, and assist in the re-election of Governor Treen.

Morton C. Blackwell
Page Two
March 25, 1981

What I would like to do is visit with you, perhaps over lunch, at your convenience, and discuss items of mutual interest.

Sincerely,

Miller D. Dial

Miller D. Dial
Vice President

file
Louisiana

Sent to Steve antosk 6/15/81

The Republican Party of Louisiana

June 3, 1981

ent Ronald Reagan
ite House
gton, D.C. 20515

President Reagan:

ouisiana Young Republicans cordially invite you to attend
eption in your honor during your visit to New Orleans in
July. The reception will be given to award the many
Republicans in Louisiana who worked tirelessly in your
lf in last fall's election.

g people were a major part of your Louisiana victory last
mber. Young Republicans who were at the forefront of the
h effort in Louisiana provided the leadership and
nization that was needed to focus the efforts of young
nteers. Young Republicans provided a large volunteer base
assisted in all the facets of the fall Campaign.

Republicans organized the Reagan/Bush victories in every
k election state-wide at our colleges and universities,
ning most with over sixty per cent. Our absentee ballot
gram at these schools turned out so many votes that several
rks of Court called the number they had received
precedented." Young Republicans also helped attract a great
l of media attention by helping to stage your three major
earances in our state.

certainly will be honored by your presence and look forward
your reply.

Sincerely,

Michael Chittom

Michael Chittom
State Chairman
Louisiana Young Republicans
Federation

.S. Mr. Morton Blackwell of your office has personally
ndorsed this reception.

IC:DC:lag

rth Sixth Street, Baton Rouge, Louisiana 70802. Phone 504/ 383-7234.

MEMORANDUM

File
Louisiana

THE WHITE HOUSE

WASHINGTON

October 9, 1981

Fr: Morton!

TO: Diana Lozano

FROM: Morton C. Blackwell MB

Attached is a letter of invitation to speak before a meeting of the Lousiana State Medical Society on November 12.

The Society is a 501 (C) (3) organization and willing to pay my travel expenses.

I have also been invited to speak to the Board of Directors of the Un~~ti~~ited South and Eastern Tribes on November 13 in New Orleans.

Copies of both invitations are attached. This seems to be a good way to kill two birds with one stone at no cost to our budget. I think this would be a useful trip, what do you think?

Morton —

It's my understanding that we cannot accept travel expenses from non-profit organizations.

Please check it out to be sure.

Also, in view of the recent drastic cut in our travel budget, I'd be reluctant to send you to very many more Indian events.

We should probably save our money for key conservative/membership events.

Diana
10/14/81

Nov 12 & 13

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

October 16, 1981

TO: Peter Rusthoven, White House Counsel's Office

FROM: Morton C. Blackwell MB

RE: Travel Expenses

Attached is a letter of invitation to me to speak before a meeting of the Louisiana State Medical Society on November 12.

The Society is a 501(C)(3) organization and willing to pay my travel expenses.

I have also been invited to speak to the Board of Directors of the United South and Eastern Tribes on November 13 in New Orleans.

In accordance with the August 24 memo from the Counsel's office I am checking with you to ask: 1) Is it appropriate for me to accept this speaking engagement and accept travel expenses from the Louisiana State Medical Society? 2) Is it appropriate for me to address the Indian group while I am in New Orleans on this trip?

Robert H. Fry, Director
Division of Public Affairs

Louisiana State Medical Society

1700 Josephine Street
New Orleans, Louisiana 70113
504 Phone: 561-1033
1 (800) 462-9508

neglected
10/30
to Mr Fry's Sec -

September 21, 1981

Morton C. Blackwell, Special Assistant
Office of Public Liaison
Executive Office Building
Washington, D.C. 20500

Dear Morton:

I am writing to ask your participation and assistance in organizing a program for the physician leadership of organized medicine in Louisiana.

- Larry Brady 377-1455 Friday noon

First, I am asking that you appear on the program on Thursday and Friday, November 12 and 13. The topic I suggest is "Public Policy Process in the Reagan Administration." This would include discussion of the political and legislative coalitions and interests that afford the President his power base and that facilitate his conduct of affairs. We would also be interested in the role that physicians might play in this process.

John Daly

Second, we would hope that an appropriate representative from Health and Human Services might also appear on the same days. The suggested topic would be "The Reagan Prescription - A New Look at Health Care." This would include discussion of block grants, Medicare and Medicaid, and some outlook as to future health care proposals...particularly the so-called "pro-competition" proposal.

Third, I have written James Miller at your suggestion (see no enclosed copy). I would hope he would agree to address a luncheon on November 12. Any use of your persuasive talents in securing Dr. Miller's acceptance would be appreciated.

All of these events will be held at the Monteleone Hotel. Your participation and that of the representative from HHS Would be in the form of a one-half hour presentation followed by one-half hour of questions and answers.

We are a 501 (C)(3) organization and are willing to pay whatever expenses as are necessary.

Please let me know of your availibility as soon as possible. Should your reply be positive, I would also appreciate glossy photographs and resumes of yourself and the HHS representative.

Sincerely,

Robert H. Fry

RHF/pf

Enc.

Lawrence Brady
Ass't Sec'y of Commerce
Rm. 3898
Dept. of Commerce
Washington
20230

att'
Gus Fromuth

Robert H. Fry, Director
Division of Public Affairs

Louisiana State Medical Society

1700 Josephine Street
New Orleans, Louisiana 70113
Phone: 561-1033
1 (800) 462-9508

September 21, 1981

James Miller, Ph.D., Chairman
Federal Trade Commission
Pennsylvania and 6th Streets N.W.
Washington, D.C. 20580

Dear Dr. Miller:

I am writing you at the suggestion of Morton Blackwell in the White House.

Recent reports in the media indicate that the Reagan Administration, while cutting back on the government's concern with antitrust violations overall, will accelerate oversight activities in the health care field. Some of those reports offer conclusions which are both false and misleading as to the activities of professional associations, especially medical societies. Thus presented, the "good guys" (FTC) thus appear justified in their attack on the "bad guys" (doctors).

I was relieved when Morton assured me that this scenario is without foundation. Nevertheless, such reports are causing an increased concern among physicians as to what exactly the FTC has in store for the future of the medical profession.

I am asking your assistance, therefore, in laying this matter to rest. Specifically, I wish to invite you to speak to the leaders of the Louisiana State Medical Society and its component parish medical societies. This opportunity would come at a luncheon on November 12 to be held at the Monteleone Hotel in New Orleans. Any assurances you make would be given distribution throughout the nation's medical societies and, through them, to the nation's physicians.

We would be gratified should you be able to render an early reply to this request.

Sincerely,

Robt H. Fry

Robert H. Fry

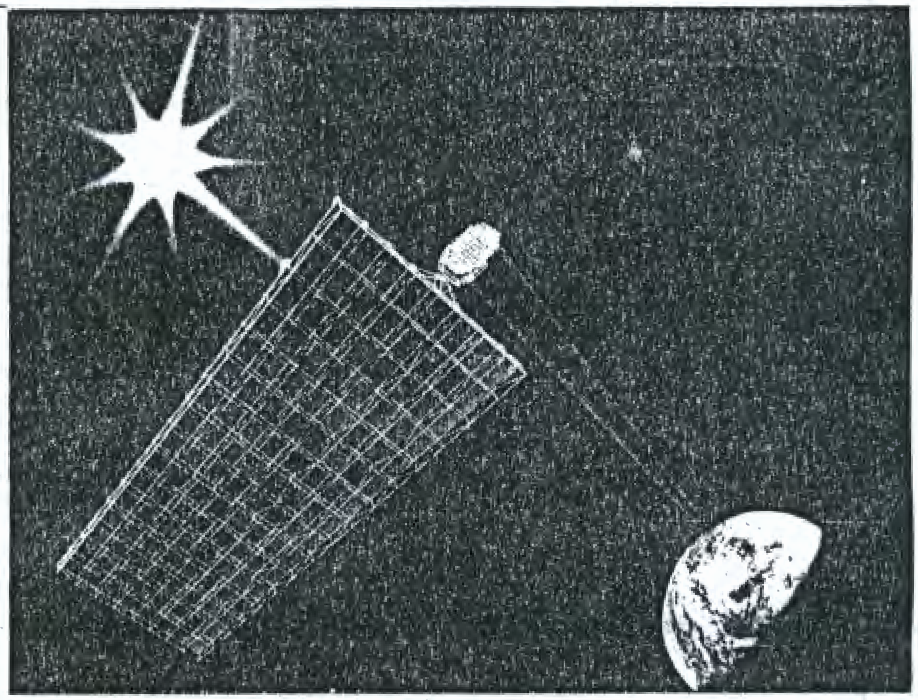
P.S. Should you be able to accept this invitation, please send me a glossy photograph along with a curriculum vitae, that we might use in promoting the event and for other publicity purposes.

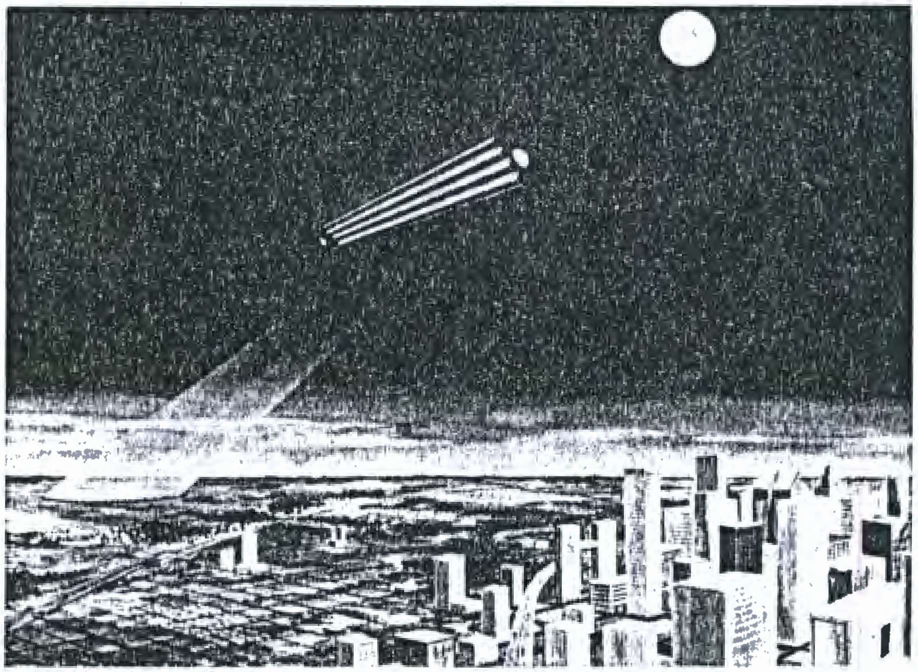
NEWS DIGEST

Solar Satellites Called Too Costly

The National Research Council (NRC) has advised the government that no funds should be spent to pursue development of orbiting solar cells for collection of solar energy because the cost is too high.

The concept of placing huge arrays of solar cells into an earth orbit where they could transmit billions of watts of energy to receivers on the ground has been studied by NASA, the Department of Energy and the NRC. NASA and DOE estimated the cost of the project at $1.3 trillion but the NRC said it would cost $3 trillion. Without "radical advances in technology" NRC said the system could not provide an "economically competitive energy source" for at least 40 years.





High tech may be chic, but not when it comes to solar power suggests the NRC. The cost of putting six-mile wide solar cells, like those in these photos of an artist's rendering, into orbit and collecting solar energy, renders the project impractical for at least 40 years.

Health Care Field Warned Over Antitrust Violations

While the Reagan administration has cut back the federal government's concern with antitrust violations in several fields, the Federal Trade Commission (FTC) has taken the initiative in chastising the health professions for practices that inhibit competition.

Among the possible abuses, an FTC report noted, are professional organizations tightening their admission standards. Too often, more stringent requirements are applied only to new applicants, not existing members, with the result of effectively limiting the number of new practitioners—thereby 'protecting' existing practitioners from new competition.

Also cited for scrutiny was the practice of disciplinary measures within medical societies. These "can be used to block innovative and experimental approaches to health-care delivery by non-physicians, alternative facilities, or traditional practitioners offering new kinds of treatment . . . Expulsion from a medical society also can be used as a signal to other physicians that nonconforming practitioners should be boycotted."

The report notes that professional societies "wield tremendous power" which are "likely to be legal," as long as objective criteria, administered with fairness and due process are observed. But an association is on legally questionable ground when it attempts to act as a quasi-licensing body.

According to *Medical World News*, the scrutiny given to the health care field is not likely to be eased by the White House as Reagan and Attorney General William French Smith have cut back antitrust actions aimed solely at large organizations; the health professions situation is different in that the abuses involve restraint of competition.

Poor Nations Told to Develop Solar Energy

Participants at a world conference on new and renewable energy sources held in Nairobi, Kenya in August were told that even the poorest of oil-deficient, developing countries should establish their own solar-power data collection systems as soon as possible.

The report, prepared by a UN panel of international specialists, noted that many poor countries are spending more than a quarter of their export earnings on the import of oil; the report suggested offsetting this cost by development of internal energy sources.

A shortage of wood-based energy was also forecast for the coming decade. The report maintained that efforts to introduce solar cookers in the past failed because introduction was not made compatible with local customs; they feel the time is ripe for a new effort to demonstrate the usefulness of solar cooking, on a large scale, according to the *Christian Science Monitor*.

File

THE WHITE HOUSE

WASHINGTON

May 29, 1981

Michael Chittom
1563 Country Club Drive
Baton Rouge, LA 70865

Dear Mike,

I deeply regret that the mailgram I composed and sent to you for your convention was not received. For the record, here is the message I sent.

Morton

Morton Blackwell

Greetings on the occasion of your 1981 LYRF Convention. As chairman of your federation 1964-66 and your national committeeman 1966-70, I will always have a warm spot in my heart for you.

So many of the leaders of your federation have gone on to successful political leadership in Louisiana and across the country.

Mrs. Betty Heitman was a member of the Baton Rouge YR club I chaired. She is now national co-chairman of our party. The fellow I succeeded as state chairman in 1964 has made a name for himself as well, his name is Gov. Dave Treen.

You have a heavy responsibility. Only you can recruit right now a future generation of political leaders among the youth of Louisiana. You can't tell for sure who will rise to leadership in the future. But you do know that a high percentage of those you recruit and activate now will be leaders for years to come.

For most of you, as for me, philosophy is your motivating force. But being right is not enough. You owe it to your philosophy to study how to win. I urge you use what you learn, working hard to build the strength of the winning coalition which elected the President Reagan and so many principled members of both houses of the Congress in 1980.

Cordially,

Morton C. Blackwell
Special Assistant to the President

Copies to EHD
Red
Morton
DianaL

Document No. 044312CS

WHITE HOUSE STAFFING MEMORANDUM

DATE: 3/1/82 ACTION/CONCURRENCE/COMMENT DUE BY: c.o.b. March 2, 1982

SUBJECT: AMENDED PRESIDENTIAL PROCLAMATION FOR FORMAL APPROVAL OF LOUISIANA WORLD EXPOSITION

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☑	GERGEN	☑	☐
MEESE	☐	☑	HARPER	☑	☐
BAKER	☐	☑	JAMES	☐	☐
DEAVER	☐	☑	JENKINS	☐	☐
STOCKMAN	☐	☐	MURPHY	☑	☐
CLARK	☑	☐	ROLLINS	☐	☐
DARMAN	☐P	☑SS	WILLIAMSON	☑	☐
DOLE →	☑	☐	WEIDENBAUM	☐	☐
DUBERSTEIN	☑	☐	BRADY/SPEAKES	☐	☐
FIELDING	☑	☐	ROGERS	☐	☐
FULLER	☐	☐	____________	☐	☐

Remarks:

Please review the attached AMENDED Presidential Proclamation. The letter of invitation (also attached) which you approved earlier has not been changed.

May we have your comments by c.o.b. Tuesday, March 2.
Thank you.

Richard G. Darman
Assistant to the President
(x2702)

Response:

This ~~[illegible]~~ is fine,
M. Blackwell
3/1/82

LOUISIANA WORLD EXPOSITION OF 1984
BY THE UNITED STATES OF AMERICA

A PROCLAMATION

In 1984, the United States of America will host a major international exposition that will explore the fundamental relationship of water to life. To be held in New Orleans on the great Mississippi River, the Louisiana World Exposition has as its theme "The World of Rivers -- Fresh Water as the Source of Life."

The theme is most timely and appropriate.

We are the first generation in history to have seen the Earth from space, and it has given us new understanding. As seen from those great distances, the dominant colors of Earth are blue and white; blue for the great oceans, and white for the canopy of clouds that replenish the land with fresh water, forming rivers and streams that lead again to the oceans. Earth is primarily a water planet.

As the world economy grows, the wise use of all resources, including fresh water, becomes increasingly important. The direct human suffering caused by severe droughts and floods is monumental, and can affect the global economic and political system. Man's technological and economic response to the challenge of new demands on our water needs to be shared and demonstrated.

There is inspiration, too, in the power and majesty of the world's rivers and their role in shaping the culture and history of so many different peoples. This celebration of the World of Rivers will be a celebration of the human experience itself.

With its many splendid opportunities for cultural and technological exchange, the Louisiana World Exposition has the full and enthusiastic support of the United States Government.

NOW, THEREFORE, I RONALD REAGAN, President of the United States of America, in further recognition of this Louisiana World Exposition, do hereby authorize and direct the Secretary of State to invite, on my behalf, such foreign countries as he may consider appropriate to participate in this event.

IN WITNESS WHEREOF, I have hereunto set my hand this day of February, in the year of our Lord nineteen hundred and eighty-two, and of the Independence of the United States of America the two hundred and sixth.

DRAFT

The Secretary of State presents his compliments to Their Excellencies, Messieurs and Mesdames the Chiefs of Mission and, in accordance with the Proclamation signed by the President of the United States of America on the   day of February 1982, has the honor to extend an invitation, on behalf of the President, to participate in the international exposition to be held at New Orleans, Louisiana, from May 12, 1984 through November 11, 1984.

This exposition will focus on the theme, "Rivers and Fresh Water - The Source of Life," and will explore the impact of rivers and fresh water on all aspects of the quality of life of all mankind.

The exposition was officially registered on April 22, 1981, by the Bureau of International Expositions as a Special Category International Exposition.

The United States plans to participate in the Exposition and will appoint a Commissioner General to exercise the responsibility of the United States Government for fulfillment of the 1928 Convention relating to International Expositions, as modified.

The Louisiana World Exposition enjoys the cooperation and support of the Government of the United States, the authorities of the State of Louisiana and the City of New Orleans, as well as that of prominent scientific, educational, industrial, cultural, business and civic leaders.

The Government favors the holding of this important event as an excellent means of encouraging the further development of world knowledge in the water resources field to the mutual benefit of participating countries.

For these reasons, the Secretary of State expresses the hope that many nations will be represented at this international exposition.

The Secretary of State would be grateful if the Chiefs of Mission would forward this invitation to their Governments. Correspondence and inquiries concerning the Louisiana World Exposition should be addressed to Mr. Petr L. Spurney, Executive Vice President and General Manager, Louisiana World Exposition, Inc., Suite 339, International Trade Mart, 2 Canal Street, New Orleans, Louisiana 70130.

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

MEMORANDUM FOR: Craig Fuller
Assistant to the President for Cabinet Affairs
The White House

SUBJECT: Draft Presidential Proclamation for Formal Approval of Louisiana World Exposition '84 and Invitation to the Nations of the World to Participate

The Louisiana World Exposition, approved earlier by the President, has met Federal requirements and has been registered as a Special Category Exposition with the Bureau of International Expositions.

Since all invitations to the Nations of the World must go through diplomatic channels, I have attached the draft language for the formal proclamation and the invitations to be sent by the Secretary of State. The language of these drafts is modelled after those used for a similar invitation for the Knoxville Energy Exposition '82.

Malcolm Baldrige
Secretary of Commerce

Attachments

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

file

February 8, 1982

Mr. Michael G. Chittom
Louisiana Young Republicans
1563 Country Club Road
Baton Rouge, Louisiana 70808

Dear Mr. Chittom:

Thank you very much for your kind invitation to address the annual state convention of the Louisiana Young Republican Federation sometime this spring in Shrevesport. I am sorry that I am unable to accept your invitation at this point in time.

Since coming to the Office of Management and Budget, I have received many invitations to speak outside of Washington. With the uncertain schedule for consideration of the budget following its transmission to Congress today, I am forced to limit my outside commitments.

Declining an invitation from a Republican organization such as yours is especially difficult because as a former Congressman, I recognize that the critical support for President Reagan, our Republican Congressmen and the President's economic program all begin at the grassroots level.

I assure you of my commitment to support the Party in every way possible and hope that at some point in the future I will be able to join you for a YR event. In the meantime, thank you again for your thoughtfulness in extending this invitation. I wish you the best for a successful convention.

Sincerely,

Dave Stockman

David A. Stockman

DAS/ms

THE WHITE HOUSE

Office of the Press Secretary
(Santa Barbara, California)

For Immediate Release March 4, 1982

LOUISIANA WORLD EXPOSITION OF 1984

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

In 1984, the United States of America will host a major international exposition that will explore the fundamental relationship of water to life. To be held in New Orleans on the great Mississippi River, the Louisiana World Exposition has as its theme "The World of Rivers -- Fresh Water as a Source of Life."

The theme is most timely and appropriate.

We are the first generation in history to have seen the Earth from space, and it has given us new understanding. As seen from those great distances, the dominant colors of Earth are blue and white; blue for the great oceans, and white for the canopy of clouds that replenish the land with fresh water, forming rivers and streams that lead again to the oceans. Earth is primarily a water planet.

As the world economy grows, the wise use of all resources, including fresh water, becomes increasingly important. The direct human suffering caused by severe droughts and floods is monumental and can affect the global economic and political system. Man's technological and economic response to the challenge of new demands on our water needs to be shared and demonstrated.

There is inspiration, too, in the power and majesty of the world's rivers and their role in shaping the culture and history of so many different peoples. This celebration of the World of Rivers will be a celebration of the human experience itself.

With its many splendid opportunities for cultural and technological exchange, the Louisiana World Exposition has the full and enthusiastic support of the United States Government. In accordance with law, I shall appoint a United States Commissioner General to exercise the responsibility of the United States Government for fulfillment of the Convention of November 22, 1928, Relating to International Expositions, as modified.

NOW, THEREFORE, I, RONALD REAGAN, President of the United States of America, in further recognition of this Louisiana World Exposition, do hereby invite the several States of the Union and its Territories to participate in the exposition and authorize and direct the Secretary of State to invite, on my behalf, such foreign countries as he may consider appropriate to participate in this event.

IN WITNESS WHEREOF, I have hereunto set my hand this fourth of March, in the year of our Lord nineteen hundred and eighty-two, and of the Independence of the United States of America the two hundred and sixth.

RONALD REAGAN

# # # #

Copies to Huck W. + [illegible] Denny P.
MB

PHELPS, DUNBAR, MARKS, CLAVERIE & SIMS

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TELEX 6821155 WUI
CABLE HOWSPENCER

July 5, 1983

Mr. Morton Blackwell
The White House
Washington, D.C. 20500

Dear Morton:

With further reference to my letter of July 1, 1983, I am enclosing copy of column appearing in The Times-Picayune on July 3, 1983, which should help you better understand the trouble we are having with Dave Treen on judgships and things in general down here.

Yours very truly,

C. E. Dunbar III

Charles E. Dunbar, III

CED/vcd/lb

Enclosure

IRIS KELSO

Treen's wayward path

Will Gov. Treen be waving goodbye to the govenor's mansion later this year?

Why is Dave Treen in trouble in the governor's race? Why, after almost four years in one of the most powerful governor's offices in history, is he not ahead in the race even when his opponent is a candidate as charismatic as Edwin W. Edwards?

It's too easy to say that Treen is a Republican in a Democratic state. It's too easy to say that it's because he is not charismatic, not entertaining like Edwards.

These are both heavy factors, but they're not enough to explain why Treen is so far behind in the race, if you believe the most recent polls.

No, the reason lies in the man. He is cautious in a job that requires bold action. He is unimaginative and obsessed with details in a job that requires a vision. He is solitary in a job that requires the broadest kind of leadership and involvement.

For these reasons, he has failed to satisfy the idealistic hopes of many of the people who elected him. He has failed to become the best player in a high stakes game. And, saddest of all, he has proven that honesty is not enough for a successful administration.

If these judgments seem harsh, it must be remembered that all great political leaders, like the rest of us, have their faults.

First and foremost, Treen will be measured against Edwards, not some ideal governor, in the Oct. 22 election.

As everybody knows, Edwin Edwards has his faults. Besides the integrity issue, which is Treen's best hope of defeating the former governor, Edwards never lived up to his own potential. He had vision, but it did not extend past his own goals or past his own administration. Yet Edwards kept things moving. He could delegate authority. He could make decisions. Instant decisions on matters of great import.

Former Gov. John McKeithen was not an administrator. He was not nearly as interested in governing, in running the state, as he was in running for office. He is a showman, an actor. Yet McKeithen in his first term seized on an industrial development program developed by the Council for a Better Louisiana, pushed through the legislation and created a sense of momentum. It was the master stroke all politicians seek in their first years in office.

Treen started his years in office with an enormous reservoir of good will. Both the voters and the politicians wanted him to succeed. But he never found a master stroke. He never got it off the ground. Always the word around the Capitol was "Wait until the next session. You'll see him move." But he never did.

The worst thing for him politically was that he holed up in his office trying to learn something about state government and trying to make all the decisions himself. He trusts few people. Refusing to delegate authority, he cast himself as a super bureaucrat rather than as a high-level executive.

Treen has made significant changes in government, but he has never created an image of himself at the center of bold changes, bold new directions.

Meanwhile, the very people who elected him, including his most dedicated Republican friends and his biggest money backers, lost sight of their governor. They had no access. They were not consulted in this great adventure many thought would turn Louisiana government around, give it a new thrust and a new image.

On smaller matters, Treen has never paid close attention to his politics or the people who elected him. There have been patronage matters in which Treen consulted Democratic legislators and gave them favors that should have gone to Republicans. Frequently, Republican leaders were not even notified when an appointment in their area was made.

With several of his legislative initiatives, notably his CWEL tax on the oil and gas industry, Treen has angered some of his biggest financial backers without achieving his aims.

So he has alienated much of his own constituency. Some major Republicans in the state are not all-out for his re-election. They may vote for him and even give him money, but they will not be out in the trenches for him as they were in the 1979 election.

The worst thing for Republicans is that if Treen is defeated, their party and the ideas about government they represent will have lost a great opportunity. An opportunity to change the face of Louisiana government. An opportunity to build a two-party system.

The opportunity to build a two-party system in Louisiana may not be lost forever. U.S. Reps. Henson Moore and Bob Livingston, the Republican Party's two best politicians, are still out there. One of them could be a future governor. But if Edwards wins, the Republican Party in Louisiana will have taken a severe body blow.

If Treen should win — and he is just beginning his all-out campaign — we will look back on this period in the election and laugh about it. We will ask: "Do you remember the time when nobody thought Treen could win, when the smart money thought Edwards would win in a landslide?" That's the way it will go.

But whatever the result, it is important to recognize now that Treen has failed to live up to the high hopes many of his supporters had for him.

He has lost part of his own constituency, both Republican and Democrat, and the reasons are not altogether frivolous, whatever else we may say about the frivolous and tolerant nature of us Louisiana voters.

The Times — Picayune
7/3/83

The President's Foreign Intelligence Advisory Board (PFIAB)

The Hale Foundation

"I wish to be useful, and every kind of service necessary to the public good becomes honorable by being necessary. If the exigencies of my country demand a peculiar service, its claims to perform that service are imperious."

—Capt. Nathan Hale
1755-1776

The Hale Foundation is dedicated to enhancing the capability of U.S. intelligence to serve the fundamental objectives of the Constitution—"insure domestic tranquility, provide for the common defense, promote the general welfare." The foundation has tax-exempt status under Section 501(c)(4) of the Internal Revenue Code as a non-profit, social welfare organization. To retain the freedom to take strong, positive positions on issues vitally affecting the ability of American intelligence to serve the above Constitutional goals, it has not sought contributions exemptions.

The President's Foreign Intelligence Advisory Board (PFIAB)

The Hale Foundation

The President's Foreign Intelligence Advisory Board (PFIAB)

[President Reagan has pledged to revive the President's Foreign Intelligence Advisory Board, abolished by President Carter in 1977. This paper is designed to assist public understanding of PFIAB's past role and the manner in which it can contribute to future national security.]

Origin and Brief History

The President's Foreign Intelligence Advisory Board was established by President Dwight D. Eisenhower in February 1956 as the "President's Board of Consultants on Foreign Intelligence Activities." Creation of the Board was based on a recommendation of the second Hoover Commission.

The first Hoover Commission (Commission on Organization of the Executive Branch of the Government), so-called because it was chaired by former President Herbert Hoover, was created in 1947 to undertake a comprehensive study of the organization and administration of governmental elements directed by the President. The second commission, created on July 10, 1953, by unanimous vote of a Congress impressed with work of the first, was empowered to study those same matters and was also specifically directed to make policy recommendations.

The Commission's Task Force on Intelligence Activities, one of 14 created to carry out its mission, was headed by Gen. Mark W. Clark (Ret.), then president of The Citadel, who had commanded the Allied ground forces in Italy in World War II, and U.S. and UN forces during the Korean War, and had also served as U.S. High Commissioner for Austria, as Deputy to the Secretary of State in London and Moscow with the Council of Foreign Ministers negotiating the post World War II Austrian Treaty, and in other important posts.

The Clark Task Force prepared two reports. One was made public in June 1955. The other was classified "TOP SECRET" and not submitted to the Commission but delivered to the President because, the Task Force said, of its "extremely sensitive content."

The public report made nine recommendations to improve the effectiveness of U.S. intelligence. The second of these was that *Congress* create a "small, permanent, bipartisan commission," patterned after the Hoover Commission and thus composed of members of the House, the Senate and "public-spirited citizens commanding the utmost national respect and confidence"—

> ...to make periodic surveys of the organization, functions, policies, and results of the Government agencies handling foreign intelligence operations....The proposed "watchdog" commission should be empowered by law to demand and receive any information it needed for its own use....Appointments by the President of persons from private life to the proposed Commission should be made from a select list of distinguished individuals of unquestioned loyalty, integrity, and ability, with records of unselfish service to the Nation.

This commission, the Task Force said, should report its findings and recommendations, "under adequate security safeguards," to Congress and the President annually and "as necessary and advisable."

The Hoover Commission accepted the basic concept in this recommendation, but somewhat altered its application. Its final report recommended that *the President* appoint—

> ...a committee of experienced private citizens, who shall have the responsibility to examine and report to him periodically on the work of Government foreign intelligence activities. This committee should also give such information to the public as the President may direct.

The Commission also recommended that *Congress* "consider" creating a Joint Congressional Committee on Foreign Intelligence, similar to the Joint Committee on Atomic Energy. It noted that if these two steps were taken, the two committees, one presidential and one congressional, "could collaborate on matters of special importance to the national security."

It did not adopt the Intelligence Task Force recommendation for a combined committee, the Hoover Commission said, because it believed that—

> ...while mixed congressional and citizens committees for temporary service are useful and helpful to undertake specific problems and to investigate and make recommendations, such committees, if permanent, present difficulties.

The Commission report was submitted to Congress and the President on June 29, 1955. Congress rejected its recommendation. Senator Mike Mansfield (D-Mont.) had introduced a resolution to create a Joint Committee on Central Intelligence earlier in the year but, even with the Commission's endorsement, it was defeated 59-27 when finally brought to a vote in the Senate on April 11, 1956.

Meanwhile, about six months after receiving the Hoover Commission report, President Eisenhower announced—on January 13, 1956—that he was implementing its recommendation and named those he was appointing to the committee it had proposed. On February 8, he issued Executive Order 10656, retroactively effective to January 13, formally establishing the President's Board of Consultants on Foreign Intelligence Activities and spelling out its duties.

He created the Board, the President's order said, "to enhance the security of the United States and the conduct of its foreign affairs by furthering the availability of intelligence of the highest order."

Eisenhower appointed eight members to the Board, designating one of them—Dr. James R. Killian, Jr., President of Massachusetts Institute of Technology—as chairman. In a message to the members, he went beyond the generalities of his executive order in pinpointing the work he wanted the Board to do:

> While the review by your group would be concerned with all Government foreign intelligence activities, I would expect particular detailed attention to be concentrated on the work of the Central Intelligence Agency and of those intelligence elements of key importance in other departments and agencies. I am particularly anxious to obtain your views as to the overall progress that is being made, the quality of training and personnel, security, progress in research, effectiveness of specific projects and of the handling of funds, and general competence in carrying out assigned intelligence tasks.

As is normal in cases of Presidential appointees, all members of the Eisenhower Board resigned toward the end of his term (on January 7, 1961) to make way for the new President's appointees.

President John F. Kennedy did not appoint a new Board immediately after assuming office. According to one writer, this was because he considered it and the Operations Coordinating Board (which he abolished in February 1961) "useless impediments, bureaucratic obstructions to a vigorous, activist foreign policy."*

The April 1961 Bay of Pigs failure, however, apparently changed Kennedy's mind. Less than one month later, on May 4, 1961, he issued Executive Order 10938, rescinding the Eisenhower order, and creating the President's Foreign Intelligence Advisory Board (PFIAB). Basically, this order did no more than change the Board's name. Its duties, as delineated in his order, were fundamentally the same as those of the Board created by Eisenhower.

President Kennedy first appointed seven members to his Board. Three were holdovers from the Eisenhower Administration—Dr. Killian, who was renamed chairman, Lt. Gen. James H. "Jimmy" Doolittle, USAF (Ret.), chairman of the board of Space Technologies, Inc., and Dr. William O. Baker, vice president for research, Bell Telephone Laboratories. A month later, on May 15, he named two more members.

President Lyndon B. Johnson retained the Board that had been serving President Kennedy at the time of his assassination and made no changes in the Kennedy PFIAB executive order. Clark Clifford, an advisor to President Kennedy and former special counsel to President Truman who had succeeded Dr. Killian as chairman of PFIAB, was retained in that position.

President Richard M. Nixon issued a new Board Executive Order (#11460) on March 20, 1969. This order, too, made no substantial change in the Board's role and duties as adviser to the President on foreign intelligence matters.

Nixon appointed 10 members to the Board, naming Gen. Maxwell D. Taylor, president of the Institute for Defense Analysis, as chairman. About half of his appointees, including Gen. Taylor, had served on the Board under earlier Presidents. He later made six additional appointments to replace members who resigned at various times during his term in office.

President Gerald R. Ford initially retained the Board as it existed at the time of President Nixon's resignation under the chairmanship of Admiral George W. Anderson, Jr., former Chief of Naval Operations and Ambassador to Portugal, who had succeeded Gen. Taylor as PFIAB chairman when the latter resigned in 1970.

Later, on March 9, 1976, Ford announced that he was expanding the Board to 17 members and designated Leo Cherne, executive director of the Research Institute of America, as its new chairman. The purpose of this expansion, he said, was to strengthen the U.S. intelligence effort:

> The intelligence needs of the '70s and beyond require the use of highly sophisticated technology. Furthermore, there are new areas of concern which demand our attention. No longer does this country face only military threats. New threats are presented in such areas as economic reprisal and international terrorism. The combined experience and expertise of the members of this Board will be an invaluable resource as we seek solutions to the foreign intelligence problems of today and the future.
>
> * * *
>
> By strengthening the Board as I have done today, and by giving the Board my full

*Powers, *The Man Who Kept The Secrets*, p. 169.

personal support, I fully anticipate that the Foreign Intelligence Advisory Board will continue its indispensable role in advising me on the effectiveness of our foreign intelligence efforts.

The previous month, Ford had taken another step that was to have bearing on the role of PFIAB. Following the investigations of the Church and Pike committees into alleged intelligence wrongdoings and his receipt of the Rockefeller Commission report on the CIA, Ford, on February 18, 1976, issued the first Presidential Executive Order (#11905) establishing the composition, management, control, responsibilities and restrictions on U.S. foreign intelligence activities.

This order created a new entity, a three-man Intelligence Oversight Board (IOB) charged with policing intelligence operations for any activities of questionable legality or propriety and considering reports on such matters from agency inspectors general and general counsels. Ford named Robert D. Murphy, famed diplomatic trouble shooter and chairman of the Commission on the Organization of the Government for the Conduct of Foreign Policy ("Murphy" Commission) who had been a member of PFIAB during the Kennedy, Johnson and Nixon administrations, as chairman. The other two IOB members he appointed were Leo Cherne, who he was to name as chairman of PFIAB less than a month later, and attorney Stephen Ailes.

President Jimmy Carter did not appoint a new PFIAB following his inauguration. A few months later, on May 4, 1977, he issued Executive Order 11984, revoking Nixon's March 1969 Board order (which had remained in effect throughout the Ford Administration) and abolishing PFIAB.

Carter's intelligence executive order of January 24, 1978 (#12036), however, did retain the IOB as an intelligence "watchdog" or policeman.

During the Carter Administration, for the first time in over 20 years, the President and the intelligence community lacked the assistance of an independent, experienced, high-level advisory group of private sector and former public officials in conducting intelligence operations vital to the nation's security.

PFIAB's Organization and Operations

PFIAB, per the executive orders authorizing its establishment and functions, did not have a fixed number of members. Presidents appointed as many members as they desired to serve on it. Most Chief Executives preferred a limited membership. As already indicated, President Eisenhower appointed eight members, Presidents Kennedy and Johnson had nine, and President Nixon, 10. President Ford's Board of 17 members had almost double the number of the original Eisenhower Board.

President Eisenhower, as the Hoover Commission had recommended, directed that Board members would serve without pay, being entitled only to standard government per diem and travel allowances for actual working periods. President Kennedy's order changed this, entitling members to compensation (the $100 per day consultants fee provided by law for such service). This change was continued in President Nixon's order. Some PFIAB members accepted this compensation, others did not.

Eisenhower's order provided that members would have to execute an oath not to reveal any classified information acquired through their service on the Board. This practice was continued throughout the Board's existence, although not specifically required by the Kennedy or Nixon orders.

PFIAB was directed to report its findings and recommendations to the President semi-annually by the Eisenhower and Kennedy orders. The Nixon order, also operative in the Ford Administration, had no regular reporting requirement. Under all orders, the Board was authorized to report to the President whenever it deemed it appropriate.

The Director of Central Intelligence and the various intelligence agencies, under the Eisenhower order, were merely "authorized" to make available to the Board any information it needed to carry out its responsibilities. The Kennedy and Nixon orders directed that they "shall make" such information available.

All Presidents provided the Board with a small, full-time staff, usually composed of an executive secretary and assistant, plus two or three secretaries, although President Nixon's order was the first to direct that PFIAB would have "a staff headed by an Executive Secretary...[and including]...such personnel as may be necessary" for its duties. The Board was also empowered to use outside consultants as needed and to draw on intelligence agencies for additional assistance.

PFIAB generally met in two-day sessions approximately every two months. In addition to occasional meetings with Presidents, the Board or its individual members routinely held consultations with intelligence officials, Cabinet members, the President's national security advisers and key policy makers. On occasions, members visited foreign intelligence installations abroad to obtain information needed to assist them in their advisory and review duties.

Issues considered by the Board arose from these consultations, from Presidential requests and suggestions of its members.

A 1975 analysis of PFIAB by the Congressional Research Service of the Library of Congress, based on information supplied by the Board's staff, revealed that in the 18-year period from its creation by President Eisenhower in 1956 through the Nixon Administration (1974), the Board had met 108 times, had had 25 meetings with the four Presidents it served during that period, and had submitted approximately 200 recommendations to them—for an average of 27 meetings in each administration, six with each President and approximately 50 recommendations submitted to each Chief Executive. The actual breakdown in each administration was as follows:

President	Bd. Mtgs.	Mtgs. with President	Recommendations
Eisenhower ('56-'60)	19	5	42+
Kennedy ('61-'63)	25	9	53+
Johnson ('63-'68)	29	3	16+
Nixon ('69-'74)	35	8	70+
Total	**108**	**25**	**181+**

Because the Board's findings and recommendations were classified, specifics about the nature of its recommendations are not available. The Library of Congress analysis revealed, however, that among others, Board recommendations had dealt with the following general subjects:

- •Control and coordination of the intelligence community, particularly in the area of covert action.
- •Improved strategic warning systems.
- •Management of the National Security Agency.
- •General development and improvement of U.S. intelligence capabilities.
- •Establishment of the U.S. Intelligence Board.
- •Improved methods of handling sensitive intelligence.
- •Closer Defense Department supervision of NSA operations.
- •More effective coordination and evaluation of covert action.
- •Improvement of science and technology applied to intelligence collection.
- •Consolidation and reorganization of various defense-related intelligence activities.
- •Development of photographic reconnaissance capabilities.
- •Review of CIA paramilitary operations.
- •Establishment of Directorate of Science and Technology in CIA.
- •Legislation relating to NSA activities.
- •Revision of functions of the National Security Council group which approved or disapproved covert action and paramilitary operations to ensure political control and review of such activities.
- •Investigations into satellite reconnaissance systems.
- •Date storage and retrieval systems.
- •Deficiencies in the collection and analysis of intelligence from Southeast Asia.

PFIAB's Accomplishments

Disparagement of PFIAB has been a consistent theme in intelligence literature produced by those who can be described, at best, as hyper-critics of American intelligence and most individuals and agencies associated with it.

David Wise and Thomas B. Ross, in *The Invisible Government* (1964), the first of the intelligence muckraking works, claimed it was "apparent" that PFIAB had "great difficulty getting to the bottom of things" because it was composed of part-time consultants who met only occasionally. Eisenhower had created it, they alleged, only to head off closer scrutiny of U.S. intelligence activity by Congress (via the joint committee route) and considered it "more innocuous" than that alternative.

Victor Marchetti and John D. Marks, in *The CIA and the Cult of Intelligence* (1974), claimed that the majority of PFIAB members had "always" had close ties with the Pentagon and defense contractors and had "consistently pushed for bigger (and more expensive) intelligence collection systems." In addition, they alleged, it had "limited value" as a "watchdog" agency because it met only once a month, was merely advisory and lacked bureaucratic authority. Intelligence personnel, according to them, considered it "a nuisance" rather than a "true control mechanism," and Presidents had used it primarily as a "prestigious but relatively safe 'in-house' investigative unit" when they were unhappy with the intelligence they were receiving on some matter. PFIAB had actually compounded the intelligence community's problems, according to Marchetti-Marks, by taking the counterproductive position that they could always be solved "if only more data were collected by more-advanced systems."

Most of these criticisms—and some others that have been made—are based on the thesis that PFIAB was designed to be a "watchdog" that policed the CIA and other intelligence agencies to detect any wrongdoing. Whether these critics misconceived the Board's role, having failed to consult the Eisenhower, Kennedy and Nixon executive orders specifying its functions, or whether they knowingly misrepresented its duties to make their criticisms plausible, the fact is that PFIAB

was never intended to operate as an intelligence "watchdog." While both the Clark Task Force and Hoover Commission used that term in describing the kind of committee or commission they were proposing, they emphasized the positive aspects of oversight. Concern was expressed about possible abuses and the need to prevent them, but the need to bring intelligence "up to an acceptable level" was stressed, deep concern was expressed about certain intelligence gaps, the commission was urged to pay "special attention" to intelligence efficiency and effectiveness, the prevention of unnecessary overlapping and duplication, and the overall aim of the proposal was stated to be the promotion of "aggressive leadership" to make intelligence "more productive."

Most important, no President adopted the "watchdog" term in his orders, letters or statements concerning PFIAB's functions. Each made it clear that he did not intend it to serve as an intelligence policeman, but as a stimulus to improving both the quantity and quality of U.S. intelligence.

President Eisenhower's stated purpose in creating the Board has already been quoted. Its basic duties, he said, were to conduct "objective review" and report to him on the agencies' foreign intelligence activities and performance and on such other intelligence-related matters as it deemed appropriate.

President Kennedy's order said PFIAB was to advise him on foreign intelligence and related activities "required in the interests of foreign policy and national defense and security," and to review and assess the functions of the CIA and other intelligence agencies.

President Nixon specified that the Board's first dury was to advise him concerning "the objectives, conduct, management and coordination of the...overall national intelligence effort"; that it was also to review and assess all agencies' foreign intelligence activities, consider and act on matters referred to it by them when Board support would "further the effectiveness" of U.S. intelligence and, finally, recommend actions "to achieve increased effectiveness of the Government's foreign intelligence effort in meeting national intelligence needs."

The wording of these three Presidential directives clearly refutes all criticisms of PFIAB keyed to the premise that it was supposed to police intelligence activities. President Ford's March 1976 statement of his reasons for enlarging PFIAB's membership and his earlier establishment of the IOB as an intelligence policing agency do the same.

All Presidents perceived and directed PFIAB to be a reviewer and adviser in a positive sense, to propose new and more efficient means of obtaining essential foreign intelligence.

Other writers and reviewers in the intelligence field, more objective in outlook than most PFIAB critics and in position to be better informed, have sharply contrasting views of PFIAB's performance and the need for such an advisory group.

Lyman B. Kirkpatrick, Jr., Professor of Political Science at Brown University for the past 16 years, has been described as "probably the most knowledgeable person writing on American intelligence agencies today." He held high posts in the CIA during his 18 years service with the Agency, including that of Inspector General, and was CIA liaison officer with PFIAB from 1956 to 1962. In *The U.S. Intelligence Community* (1973) he gave this response to criticisms of PFIAB as an "establishment" organization inclined to go along with anything the intelligence agencies do and lacking qualifications to make useful evaluations:

> ...it is my view that such criticisms are invalid and are based more on prejudice than knowledge.
>
> The argument that the board is simply a mirror of the system ignores the broad experience of the members. It is a grave error to assume that because an individual served in the government he is an advocate of all that the intelligence agencies may do. Most board members are more familiar with the weaknesses than the strengths of the intelligence system. This background gives them the required expertise, that of intelligence consumers....it was my experience that the President's board was one of the severest critics of the intelligence system. It is noteworthy that many of its recommendations were adopted or served as the basis for later reorganizations.

At another point, contradicting the later claim of Marchetti-Marks that PFIAB "consistently" promoted more costly intelligence collection systems, he referred to it as one of the bodies "exerting constant pressure to keep [intelligence] expenditures down."

The Church Committee, which was certainly not overly kind to the Intelligence Community, took the view that the President needs an independent body such as PFIAB "to assess the quality and effectiveness of our foreign intelligence effort." It reported that—

> Board reports and recommendations have contributed to the increased effectiveness and efficiency of our foreign intelligence effort.
>
> * * *
>
> PFIAB, has served, in effect, as an intelligence "Kitchen Cabinet." The Board has been useful, in part, because its advice and recommendations have been *for* the President. As such, the executive nature of this relationship should be maintained.
>
> Over the years, many of PFIAB's recommendations have been adopted, and others have served as a basis for later reform or reorganization.

On the issue of the Board's specific contributions to improved intelligence, and thus to the national security, the Committee said:

> ...the Board played a significant role in the development of our overhead reconnaissance program. It has made recommendations on coordinating American intelligence activities; reorganizing Defense intelligence; applying science and technology to the National Security Agency, and rewriting the National Security Council Intelligence Directives (NSCIDs). The Board has conducted post-mortems on alleged intelligence failures and, since 1969, made a yearly, independent assessment of the Soviet strategic threat, thereby supplementing regular community intelligence assessments. Most recently, it has reported to the President on economic intelligence and human clandestine intelligence collection.

The Murphy Commission (Commission on the Organization of the Government for the Conduct of Foreign Policy), in its 1975 report, stated:

> In view of the special importance and sensitivity of intelligence, the Commission believes the President should have sources of advice independent of the...[Director of Central Intelligence]. The PFIAB should become the principal such source. In the past, PFIAB has played an important role in the development of technical collection systems, in conducting useful analysis of apparent intelligence failures, and in directing attention to new issues for intelligence concern.

The Rockefeller Commission (Commission on CIA Activities Within the United States) noted that PFIAB had not considered domestic intelligence activities, the only subject it was empowered to investigate, but that—

> ...in the early 1970s it explored the relationship between the CIA and the FBI in connection with foreign intelligence activities which could successfully be accomplished within the United States.
>
> Thus in June 1972, the Board recommended to the President that the jurisdictional lines be clarified, either legislatively or administratively, so that some government agency might undertake certain specific intelligence activities within the United States.

Additional information on the Board's contributions to American intelligence and overall security was provided in the Senate Intelligence Committee's January 13, 1981 hearing on President Reagan's nomination of William J. Casey, who had served as a member of PFIAB in the Ford Administration, to be Director of Central Intelligence.

Senator Daniel Patrick Moynihan (D-N.Y.) introduced into the record a statement supporting the Casey nomination from Leo Cherne, executive director of the Research Institute of America and, before his appointment as PFIAB chairman by President Ford in March 1976, a member of the Nixon and Ford Boards. Cherne's statement revealed that the Board, primarily on the urging of Casey, had made recommendations on the importance of economic, financial, petroleum and agricultural intelligence, high technology trade, and improvement in connections between intelligence producers and consumers (i.e., the intelligence agencies and top policy makers).

Cherne also wrote that the Board played a "catalytic role" in then CIA Director George Bush's adoption in 1976 of the "A-Team/B-Team" competitive analysis of the Soviet strategic threat, and that its last effort had been a "large undertaking", with the assistance of former Directors of Central Intelligence, top policy makers and military leaders, to identify future U.S. intelligence needs.

Casey himself testified that "big leaps" in U.S. intelligence collection capability had resulted from the thinking of PFIAB members such as Edwin H. Land, president of Polaroid, and Dr. William O. Baker of Bell Telephone Laboratories (both of whom had served on the Board in several administrations).

The U-2

Casey's reference to Land's contributions to major U.S. intelligence advances was a reminder of the fact that, even before PFIAB was first established by President Eisenhower, a panel headed by Land and working under the President's Science Adviser, had proposed the concept of the U-2, the plane made world famous on May 1, 1960, when one piloted by Francis Gary Powers was shot down over the Soviet Union.

A jet-powered "glider" built for the CIA by Lockheed with a fuselage only 40 feet long and a wingspan about double that, the U-2 did not have to strain to momentarily reach great heights, but could cruise effortlessly for more than 9 hours at altitudes initially beyond the range of any known rocket or missile. In test and training flights it had easily (and secretly) broken the world altitude record of 65,889 feet set in 1955 by a British Canberra Mark II. For 4 years before Powers was shot down, former Air Force pilots recruited by the CIA had been overflying the Soviet Union in U-2s on reconnaissance missions—with the full knowledge of Soviet officials, who lacked any weapon that could touch them.

President Eisenhower said the U-2's accomplishments were "nothing short of remarkable." CIA Director Allan Dulles said it—

> ...could collect information with more speed, accuracy and dependability than could any agent on the ground. In a sense, its feats could be equaled only by the acquisition of technical documents directly from Soviet offices and laboratories. The U-2 marked a new high, in more ways than one, in the scientific collection of intelligence.

Powers himself later wrote that the U-2 revealed for the first time—

> ...a composite picture of military Russia, complete to airfields, atomic production sites, power plants, oil-storage depots, submarine yards, arsenals, railroads, missile factories, launch sites, radar installations, industrial complexes, antiaircraft defenses.

Land's concept of this fantastic plane is just one example of what the private sector, working through a body such as the PFIAB, can contribute to America's intelligence capability and security.

That U.S. intelligence continued to benefit tremendously by Land's service on PFIAB under Presidents Kennedy, Johnson, Nixon and Ford is evident from Casey's confirmation testimony.

PFIAB's "A-Team/ B-Team" Achievement

The worst failure of American intelligence in the past two decades was not the fault of the CIA's "spies" (case officers and their recruited foreign agents) or covert actionists, but of the Agency's "intellectuals," the analysts in its Langley, Virginia, headquarters. These are the people who annually produce the one intelligence document that is more important to U.S. security and survival—and thus to the rights and liberties of American citizens—than any other, the National Intelligence Estimate (NIE).

NIEs, based on the latest, best and most comprehensive intelligence available, assess Soviet strategic intentions and capabilities. They decisively influence this country's most fundamental defense and foreign policy decisions. They determine, in effect, who will win any U.S.-Soviet conflict. If they are correct, then, given the tremendous U.S. capability that can always be mobilized to provide whatever defense is essential to survival, we will never be caught short and can always be assured of victory. If they are wrong, it can mean the end of a free United States of America. A Bay of Pigs failure pales by comparison.

Senator Malcolm Wallop (R-Wyo.), a member of a Senate Intelligence subcommittee which looked into the NIEs in 1977, summarized their continuing miscalculations as follows in the Casey confirmation hearings—

> ...few things have contributed to the danger that this country now finds itself in as the CIA's faulty national estimates over the last decade and decade-and-a-half. When the Soviets were beginning the greatest strategic buildup of all time, the CIA said the Soviets were unlikely to try to match us in numbers of missiles. When the Soviets approached our numbers, the CIA said they were unlikely to exceed it substantially. When they exceeded it substantially, the CIA said the Soviets would not try for the capability to try to fight and win a war against us. And now that the Soviets have nearly achieved that capability, the CIA's estimates tell us the Soviets cannot be sure it will work.

Senator Moynihan, also a member of the NIE subcommittee, stated in his report on the investigation that for a dozen years the NIEs "have by and large failed" and that U.S. strategic concepts based on them therefore "corresponded to the Soviet reality less and less as the years went by."

Since January 1977, when the question of grossly faulty NIEs became a national issue as the result of a leak, the full extent of their consistent underestimation of Soviet development and deployment of ICBMs, SLBMs, long-range bombers and other strategic weapons, their power, accuracy and related matters, have been the subject of numerous books, articles, papers and speeches by outstanding scholars and defense specialists. The same is true of the NIEs erroneous findings on the exceedingly important question of Soviet intentions.

The ultimate result of the NIE miscalculations has been a major shift in the strategic balance. The United States became inferior, instead of superior. At tremendous cost, it is now in a race to rebuild its strategic capabilities before it is too late to defend its freedom and independence.

PFIAB deserves full credit for bringing about a correction in the NIEs and for the Nation's being alerted to its perilous defense posture. Its role in this development was spelled out in the February 1978 report of the subcommittee of which Senators Wallop and Moynihan were members, the Senate Intelligence Committee's Subcommittee on the Quality of Intelligence, chaired by Senator Adlai Stevenson (D-Ill.).

The highly publicized "A-Team/B-Team" analysis experiment, in which outside experts were brought in to weigh the same information available to the CIA's professional analysts in preparing their NIEs, the report said—

> ...stemmed from PFIAB's opinion that the NIEs had been underestimating the progress of Soviet strategic weapons. In an August 1975 letter to President Ford, PFIAB Chairman George W. Anderson, Jr. proposed that the President authorize the NSC [National Security Council] to institute a "competitive analysis."

CIA Director William E. Colby temporarily stymied this move by counterproposing that PFIAB should examine an NIE then in preparation before determining what action should be taken. PFIAB did this and found "weaknesses" in the new NIE. It then made further investigations of its own and, in April 1976, again proposed a competitive analysis experiment, to be carried out under the jurisdiction of the Director of Central Intelligence (DCI).

Vice President George Bush had then succeeded Colby as DCI. He agreed with the idea and, the subcommittee reported—

> PFIAB commissioned three *ad hoc* outside groups (composing the "B Team") to examine the data available to the U.S. intelligence community's analysts (the "A Team") to determine whether such data would support conclusions on Soviet strategic capabilities and objectives different from those presented in the Community's NIEs.

The above statement is misleading, creating the erroneous impression that PFIAB selected the B Team (the report later states inaccurately that PFIAB "took an active role in the selection" of it). Actually, though involved in the organizational arrangements for the creation of the B Team, PFIAB left the actual selection of its members up to the DCI, believing it should not be involved in deciding who should serve on the competitive group. As Cherne told the Senate Intelligence Committee, the selection of the teams was "entirely the responsibility of the CIA."

The staff of the Stevenson subcommittee that produced the NIE report was so dovishly oriented and obviously biased against PFIAB that Senators Moynihan and Wallop attached separate views to its report, criticizing its overall tone and many of its statements and findings. Despite its obvious slant, however, the report still found that the PFIAB initiative was "legitimate...justifiable and desirable," that the B Team made "valid criticisms" and "useful recommendations," that "the estimative process needs improvement" and that outside critiques, as proposed by PFIAB, "should continue to be conducted."

The result of the A-Team/B-Team experiment was the most realistic NIE produced in many years, described in the press as "more somber" and revealing "increasingly ominous" Soviet trends. It had far-reaching positive effects on U.S. defense preparations. As just one example, President Carter, who had campaigned on a platform that called for further reductions in the defense budget, was eventually induced by more realistic NIEs to abandon this position and move toward increased defense spending.

PFIAB's perception of the deficiencies in the NIEs, its persistence in pushing for corrective measures, and the production of the 1976 NIE as a result of its efforts, probably constitute the greatest of the many contributions it made to U.S. security.

It is certainly one of the ironies of recent U.S.

history that PFIAB was abolished shortly after it had made its greatest contribution to the basic welfare of the American people and, in doing so, conclusively proved its worth.

PFIAB and the Oversight Issue

The Rockefeller Commission, in its June 6, 1975 report to the President, recommended that—

> The functions of the President's Foreign Intelligence Advisory Board should be expanded to include oversight of the CIA.

The Commission proceeded to list six functions it believed the Board should have in relation to the Agency. All except the first were advisory functions the Board had been carrying out under the Eisenhower, Kennedy and Nixon directives. The first (and new) PFIAB function suggested by the Rockefeller Commission was:

> Assessing compliance by the CIA with its statutory authority.

The Commission also recommended that PFIAB be empowered to "audit and investigate" CIA expenditures and activities and that the CIA Inspector General be authorized to report directly to the Board, whenever he deemed it appropriate, after notifying the DCI. To carry out these added duties, the Commission said PFIAB should have a full-time chairman and a staff "appropriate to its role."

The Murphy Commission, reporting to the President exactly three weeks later, said it "notes favorably the recommendation of the Rockefeller Commission on strengthening the role of PFIAB."

The Church Committee, in its April 1976 report, disagreed with the idea that PFIAB should have oversight functions. Its final report, after mentioning the Rockefeller, Murphy and other similar proposals, stated:

> Whether PFIAB should adopt this oversight or "watchdog" function, or whether Congress should be involved in the activities of the Board is open to question. President Ford, in his Executive Order [for the Intelligence Community], decided against transforming the Board into a CIA watchdog. Instead, he created a new three-member Intelligence Oversight Board to monitor the activities of the intelligence community.
>
> * * *
>
> The Board has not been an executive "watchdog" of the CIA. To make it so would be to place the Board in an untenable position: adviser to the President on the quality and effectiveness of intelligence on the one hand and "policeman" of the intelligence community on the other. These roles conflict and should be performed separately.

It is fortunate that, as the Church Committee noted, President Ford rejected the Rockefeller-Murphy commissions' recommendations that PFIAB be given watchdog duties. His creation of a separate Intelligence Oversight Board to police intelligence agency activities was a better solution to the executive oversight problem.

Policing the community and auditing and investigating CIA expenditures and operations would unquestionably have required a full-time PFIAB chairman and greatly expanded staff. It would also have diverted the Board from its traditional—and more important—positive role of advising the President on how he could improve overall intelligence production while it spent valuable time nit-picking about dollars and cents, to a large extent duplicating the work of the Senate and House Intelligence committees which spend months of each year on this task before approving intelligence authorization bills.

In addition, making the chairmanship a full-time position would have further weakened PFIAB and diluted its ability to make significant contributions to the intelligence effort by making the chairman of the Board just one more government official, instead of a prestigious, independent outsider. It would also entail the danger of tying him so closely to the intelligence community that he might lose much of the "distance" and objectivity essential to his best performance as a key intelligence adviser to the President.

Moreover, despite the fact that President Ford appointed two PFIAB members to the IOB when he created it, the type of high-level achievers best qualified to make positive intelligence suggestions are generally not well-suited, by training or inclination, for policing duties. And finally, because these two disparate functions generally require differing organizational structures for optimum results, it is better to assign them to separate bodies, with each free to structure itself in the manner best suited to its functions.

Benefits of Positive Oversight

America's world leadership in many areas served by the private sector is indisputable evidence that top-ranking industrialists, scientists, academicians and managers—particularly those in highly competitive fields and high-technology areas—possess vital, new knowledge and are capable of the type of innovative and imaginative thinking that can contribute greatly to this country's intelligence capabilities.

The same is true of those who have held high posts in the diplomatic, military and intelligence services. Despite some reverses over the years, the fact is that the United States government has been the recognized leader of the free world for several decades, that many who have held key posts in these services contributed importantly to this fact, and that they have a wealth of practical knowledge and experience that can be utilized to strengthen the Nation's intelligence effort. Serving on a voluntary basis in retirement, free of the bureaucratic limitations, rivalries, special interests—and political pressures—that once restricted their freedom or colored their thinking to some degree, they can more objectively assess the President's most compelling intelligence needs and how well they are being handled by the intelligence community than they could while on active duty.

PFIAB was the instrument through which the services of these two groups were used to strengthen the Nation's first line of defense in the past. Its revival will make them available again.

William J. Casey emphasized in his confirmation hearing as Director of Central Intelligence that it was necessary to "search for new and better ways to get continuing input from the outside

world" to improve analysis and other elements of U.S. intelligence and that he intended to devote great effort to this. He then noted—

> A revival of the President's Foreign Intelligence Advisory Board can contribute substantially to this.

In one of his first major speeches as DCI, Casey said—

> ...the time has come to recognize that the intelligence community has no monopoly on truth, on insight, on initiative in foreseeing what will be relevant to policy. For that reason, we are in the process of reconstituting a President's Foreign Intelligence Advisory Board made up of strong and experienced individuals having a wide range of relevant backgrounds.

In addition to bringing in the best of relevant thinking, PFIAB can serve as an antidote to an occupational weakness of all highly specialized fields, including intelligence—loss of ability to see the forest for the trees. Intelligence professionals, like others, can become so intensely occupied with the minutiae of their craft that they may lose sight of the big, overall picture.

PFIAB undoubtedly missed some of the little trees in the intelligence forest that the professionals detected, but the more than 200 big picture recommendations it made to five Presidents demonstrate what an important asset it was in a basic security area. Its members, highly knowledgeable and experienced but not fully involved, were better able to perceive fundamental needs from a detached, more coldly analytical viewpoint.

Some of the professionals, of course, saw important defects when PFIAB did not and brought them to the Board's attention with the result that they were corrected—a fact that points up another advantage in an agency such as PFIAB. A President may be too busy to give an intelligence official the time he needs to spell out all his problems. With PFIAB available, if he has a good case, he has a friend in court. The President will find time to hear and consider PFIAB's recommendations. It is *his* Board; its chairman a man he holds in high esteem.

The Clark Task Force pointed out another advantage in having a high-level, independent citizen advisory group such as PFIAB. Because intelligence agencies must operate in secrecy, some public concern about their activities is inevitable. This concern involves not only possible abuses, it said, but questions such as whether they are "producing the intelligence required for the security of the Nation."

Public knowledge that a group of highly respected private citizens was keeping its eye on such matters and reporting its findings to the President, it believed, would help allay such concerns, "shield our Intelligence program from unjustifiable attacks...and enhance public confidence and support of this vital work."

An added dividend that would flow from this increased public support, it noted, would be—

> ...public participation in the collection of overt Intelligence data....With such assurance, [the public] would develop an enthusiasm and alertness which could bring in valuable information at times to supplement the work of the regular Intelligence forces.

The ultimate test of the value of any institution is the opinion of informed people who have had extended practical experience under its influence or control. AFIO, the Association of Former Intelligence Officers, has about 3,000 members, all veterans of the CIA, DIA, NSA, FBI, military intelligence services and other agencies with intelligence functions. Many who have held the highest posts in these services during the past quarter century are members of the group, along with larger numbers of middle managers and "street agents." There is probably no group in the country that equals its combined knowledge of, and experience in, intelligence in all its forms, and is better positioned to judge PFIAB's impact, for good or bad, on American intelligence. At its 1980 convention, AFIO adopted a resolution which advocated that—

> ...the President reestablish PFIAB to perform the functions in which it was formerly engaged and such other similar functions as the President finds appropriate.

The men and women who took this stand had worked primarily abroad but also at home under organizational and operational conditions, and with techniques, influenced in varying degrees by PFIAB during its 20-year existence. Whether top-level managers or collectors of intelligence in the back alleys and outposts of the world, they had experienced at first hand the impact of PFIAB's findings and recommendations to five U.S. Presidents. It is difficult to dispute their judgment about the desirability of reviving the Board.

Given the support PFIAB has received from the Rockefeller and Murphy Commissions, the Church Committee, AFIO and others knowledgeable in the field, there can be little doubt that its revival will contribute materially to the national security through improved intelligence.

Additional copies of this report may be obtained from:

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PRESS RELEASE
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Strong support for President Reagan's expected revival of PFIAB, the President's Foreign Intelligence Advisory Board, was released today by the Washington-based Hale Foundation. Created by President Eisenhower in 1956, the Board was abolished by President Carter in 1977. The Foundation says there can be "little doubt" the Board's reconstitution "will contribute materially to the national security through improved intelligence."

President Ford's PFIAB, it says, deserves "full credit" for correcting the "worst failure of American intelligence in the past two decades" by bringing about the 1976 "A Team/B Team" experiment that, after years of CIA miscalculations, produced the first realistic National Intelligence Estimate of Soviet intentions and capabilities in many years.

Noting that Carter's abolition of the Board left the President and the intelligence agencies without the assistance of a high-level advisory group for the first time in 20 years, the Foundation says it is certainly "one of the ironies of recent U.S. history" that the Board was abolished shortly after it had made "its greatest contribution to the basic welfare of the American people."

Rejecting the criticisms of such writers as Victor Marchetti, John Marks, David Wise and Thomas Ross, the Foundation enumerates a series of major, positive contributions PFIAB made to American intelligence during the Eisenhower, Kennedy, Johnson, Nixon and Ford administrations.

Its report also faults the Rockefeller and Murphy Commissions for recommending that PFIAB be made an intelligence policeman, responsible for detecting any intelligence improprieties. This, it says, would have detracted from its more important positive role. President Ford's decision to create the Intelligence Oversight Board to carry out this function was a better solution to the executive oversight problem.

The Hale Foundation is dedicated to countering unfounded attacks on intelligence agencies and enhancing their capability to serve the fundamental objectives of the Constitution -- "insure domestic tranquility, provide for the common defense, promote the general welfare."

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