

7/15/77 [2]

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~~CONFIDENTIAL~~

THE WHITE HOUSE
WASHINGTON

July 15, 1977

Hamilton Jordan -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re: National Transportation
Safety Board

"DETERMINED TO BE AN ADMINISTRATIVE MARKING
CANCELLED PER E.O. 12356, SEC. 1.3 AND
ARCHIVIST'S MEMO OF MARCH 16, 1983"

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE
WASHINGTON

*Ham
J*

TO: PRESIDENT CARTER
FROM: HAMILTON JORDAN *HJ*
RE: NATIONAL TRANSPORTATION SAFETY BOARD

At present, we have a vacancy on the NTSB. The following information is presented for you review and decision:

- Profile on the NTSB
- Background Information
- Recommendation
- Comments on Recommended Candidate

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for Preservation Purposes**

THE NATIONAL TRANSPORTATION SAFETY BOARD

The National Transportation Safety Board is a 5 member Board with members serving for 5 year terms. The chairman, designated by the President, serves, as chairman, for a two-year period.

Currently, there is one vacancy: A level IV term which expired December 31, 1976. Another vacancy will occur September 1 when the current Chairman's resignation is effective. On December 31, 1977 another term will be vacant. Therefore, the President will have the opportunity to appoint at least three of the five members of the Board before the year is out.

The Board had its origin in the Aviation Safety Department of CAB. In 1966 it was included in the Department of Transportation as a quasi-independent agency. By tradition its main focus has been aviation safety, although its mandate has been extended to include surface transportation.

Congress explicitly mandated the Board broaden its focus in 1974 to include all forms of transportation; as the legislation is written the Board is intended to be the watchdog for all transportation safety.

The Board has had most of its success in the investigation of airline accidents. In highway accidents, however, it has not been as successful.

The lack of direction in surface matters can be attributed to the majority of the Board members' background in air transportation. To remedy this, Congress decreed that at least two of the five members must have expertise in accident reconstruction, safety engineering or transportation safety.

To have an effective, balanced board, the next appointment, or the one that follows, should be someone with a strong highway background.

CURRENT MEMBERSHIP:

Chairman, Webster Todd, Republican - resignation effective 9/1/77
Kay Bailey, Republic - term up 12/31/1981
Vacancy - 5 year term expired 12/31/76
Philip Hogue, Independent, - term up 12/31/78
Francis McAdams , Democrat, term up 12/31/77

RECOMMENDATION

Jim King - presently in charge of the White House personnel office - is interested in being considered for this appointment.

The fact that he is interested was surprising to me and also a personal disappointment as I would hate to lose him here. However, for the past six months he has had the difficult challenge of trying to place our campaign people, develop systems for placing and clearing Presidential appointees and setting up the Personnel Office.

Everyone agrees that he has done a spectacular job. However, Jim has a large family and has had a background in transportation. He feels that he is at a point in his life where he should pursue his professional interests in transportation as opposed to staying here on the White House staff.

I respect that decision but regret very much his desire to leave. If you had ever gotten to know him better, you

would share my warm feelings for him personally as well as a high regard for his abilities and intelligence.

Jim's resume and comments on his qualifications are enclosed for your review and consideration.

Comments on James B. King

Brock Adams, Secretary of Transportation:

"Most happy to have a chance to comment on King. He is a super person with good experience in transportation. NTSB has a good staff of technicians but the Board needs more than that. They need someone with common sense, someone like Jim who has dealt with the real issues. He would be an excellent appointment."

Fred Salvucci, Secretary of Transportation, State of Massachusetts:

"Terrific, I recruited him for the Massachusetts Bay Transportation Authority to head their worst department: Community Relations and Marketing. That department had been a political dumping ground for years - full of incompetents, alcoholics, etc. Jim turned the place around - made it into a functioning unit very quickly. He can provide leadership and do the job that needs to be done."

Robert Kiley, Director MBTA:

"Jim would be very good for the NTSB. I know the agency well. He has a transit background; he has "ground floor" contacts around the country on the local and state level and he is extremely sensitive both on the local and state level and he is extremely sensitive on both political and substantive issues."

Bill Dodds, United Auto Workers:

"King has brains, guts, personality, and knowledge of the industry. He would be first rate. He has good connections in the country and the Hill. 1) He will be able to get Congressional support for the NTSB's recommendations; 2) he will be able to make their recommendations understandable to the common person; 3) he is a very good salesman. He is a fast learner and can get things moving. Definitely more a leader than an administrator."

Senator Kennedy:

"He would be an excellent choice for NTSB. He is competent, loyal, intelligent and an excellent administrator. Knowledgeable in the area and understands the NTSB's problems. I recommend him very highly."

III. TALKING POINTS

1. The Administration's Hospital Cost Containment Act of 1977 will slow the uncontrolled rise in hospital costs. It will allow us to develop a long-term program for containing the cost of health care while guaranteeing quality. And it is the essential first step in providing access to care for those who have been excluded. The Administration needs your continuing support and commitment to secure passage of this critical bill. The American Association of Retired Persons and other major groups have already endorsed the legislation, and with your continued help we will make this important first step a reality.
2. We are moving in the housing area by revamping the Section 202

- 2 -

medical care and to provide safeguards against abuse of people purchasing these devices. H.R. 453 would extend Medicare to include coverage of prescriptive drugs.

Housing: The Committee is also interested in having an Assistant Secretary for the Elderly at the Department of Housing and Urban Development appointed to plan and control the use of funds available for housing and related facilities for the elderly. Section 202 housing has run into snags at HUD resulting in the delay of the full implementation of this program.

Transportation: Transportation opportunities for the elderly can be improved by reducing airfares, allowing greater individual tax deductions to promote volunteer drivers, and tax exemptions for companies providing non-profit transportation for the elderly. Public Transportation should also be designed so that it is more accessible to the elderly.

Crime: The elderly are haunted by crime. The Committee advocates federal programs in conjunction with state and local law enforcement agencies to get rid of the street criminals who prey on older people and to give added enforcement against swindlers and con-men who take advantage of older people. The Committee should also be interested in hospital cost containment. Since 1950, the cost of a day's stay in the hospital has increased more than 1000% -- over eight times faster than the Consumer Price Index. These increases harm our people in many ways. For example, Medicare benefits don't go as far, and the amount owed by a Medicare patient in the form of deductibles and copayments rises directly with the cost of hospital care. In fact, our elderly citizens today pay more each year per capita for health care than they did before Medicare. Also, escalating health care costs have contributed directly to growing state and local budget deficits, forcing increased taxes and cutbacks in protection for the poor under Medicaid; runaway costs undercut our ability to plan needed reforms, such as National Health Insurance.

Participants: The President, Mrs. Carter, the Vice President, Members of Congress on attached list, Nelson Cruikshank, Frank Moore, Midge Costanza, Valerie Pinson, Dave Robbins (Public Liaison staff) and Bill Smith.

Press Plan: Brief National Coverage at the beginning of the meeting.

JAMES B. KING

PROFESSIONAL EXPERIENCE

Jan. 1977 - Present	Director, Office of Presidential Personnel
1975 - 1977	Director of Marketing and Community Affairs, Massachusetts Bay Transportation Authority
1967 - 1975	Special Assistant, Senator Edward M. Kennedy
1966 - 1967	Director, Holyoke, Mass. Program for the Aging
1965 - 1966	Associate Commissioner for the Commonwealth Service Corps
1963 - 1965	Security Division, Department of Public Utilities, Commonwealth of Mass.
1962 - 1963	Newsman, WOPL, Channel 22, Springfield, Mass.
1961 - 1962	Teacher, Ludlow Junior High School

EDUCATION

American International College	1960 - B.A.
Fellowship, Harvard University School of Government	1972 - 1973

PERSONAL

White Male
Democrat
1935

Summary

I hope you will agree with my assessment and high recommendation of Jim King and see fit to appoint him to the NSTB.

I want to appoint Jim King.

I want other candidates.

J

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for Preservation Purposes**

THE WHITE HOUSE
WASHINGTON

July 15, 1977

Bob Lipshutz -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re: Lockheed C-130

cc: Z. Brzezinski



OFFICE OF LIEUTENANT GOVERNOR

418 STATE CAPITOL
ATLANTA, GEORGIA 30334

ZELL MILLER
LIEUTENANT GOVERNOR

BILL BURSON
ADMINISTRATIVE ASSISTANT

June 20, 1977

*Lipschutz - Let
me know minimum
time required for
routine sale approval.
J.C.*

The President
The White House
Washington, D. C. 20500

Dear Mr. President:

Thank you for the great honor you accorded my family and me in inviting us to visit with you in your office last week. To be accorded so much time by a person as busy as you are is an experience we never shall forget and for which we always shall be profoundly grateful. Shirley wants you to know that she especially appreciates your remark about your "favorite Member of the Miller Family not being along."

On June 16, I related the substance of our C-130 discussions to Bob Ormsby, the President of the Lockheed-Georgia Company, and he was as gratified as was I for your expressed interest in the problem.

In my discussion with Bob, he mentioned that he had reviewed the C-130 problem with many State and Defense Department officials, including Dr. Harold Brown earlier that day. All of these officials recognize the near-term C-130 signup problem resulting from the State Department's recent designation of the C-130 as "significant combat equipment" for purposes of the Arms Export Control Act (AECA) and are working very hard to shorten the lengthy governmental administrative time spans that this designation imposes. Since that designation was made on March 29, 1977, Lockheed has repeatedly suggested that the interpretation of Congressional intent and that the appropriate correction is to redesignate the C-130 as a "defense article." This redesignation corrects the error without eliminating strict controls over foreign deliveries and avoids the long contractual delays currently being experienced. I was surprised to learn from Bob that all responses to Lockheed's requests for reclassification have been negative.

Thus, in my view, the real issue at the root of the problem is the purpose served in designating the C-130 as "significant combat equipment." There is ample evidence in the legislative history of

RECEIVED
JUN 29 1977
C. L. RAY

the AECA that Congress did not intend the C-130 to be classified in this manner and thereby be subject to the most stringent set of arms controls.

In its April 1976 report on the AECA, the House International Relations Committee outlined its reasons for a two-tier system of arms export controls, which distinguishes between "defense articles" and "major defense equipment." After noting that "major defense equipment" was defined in the AECA as "significant combat equipment," the Committee continued:

"The purpose of this procedure is to assure that the sale of significant amounts of major combat equipment will be subjected to the more rigorous direct U. S. Government supervision and control" (emphasis supplied).

As for the C-130, Congressional intent was specifically indicated during the April 1976 hearings before a subcommittee of the House International Relations Committee which in the same time period was handling the AECA. The subcommittee held these hearings to consider whether the sale of six C-130's to Egypt would adversely affect the position of Israel in the hostile and extremely volatile situation in the Middle East. The subcommittee, including many supporters of Israel, concluded that the six C-130's did not have "any substantial military applicability" in this context. The Congressional intent was further evidenced by AECA floor amendments approved by wide margins in the House on May 24, 1977, and in the Senate on June 15, 1977. In introducing these amendments, the authors suggested that cargo aircraft should not be considered as significant combat equipment.

On the basis of these revelations of Congressional intent, I am amazed that the State Department interprets Congress' intent to include the C-130 as "significant combat equipment." As further evidence of improper classification, Naplam is excluded. Although the authority to designate Munitions List articles has been delegated to State, no such authority has been delegated regarding the designation of "significant combat equipment." The designation of this equipment is, therefore, not entirely a matter of State Department discretion, as is the Munitions List, but a matter of following the intent of Congress.

I know that Lockheed-Georgia recognizes and supports the need for a more stringent arms control policy. Lockheed's request to reclassify the C-130 in no way impinges upon this policy since it still permits the U. S. Government to stop delivery of equipment whenever desired. Despite this retention of control, and the

The President
Page Three
June 20, 1977

recent clarification of Congressional intent, it seems clear that neither State nor Defense will agree to redesignating the C-130 as a "defense article" without Presidential direction. It is respectfully suggested that you consider the change herein and direct an administrative correction to the State Department regulation to classify the C-130 as a "defense article."

This could be accomplished with the following language (underscored below) for that portion of 22 CFR, Part 121, which deals with aircraft:

"121.03 Significant Combat Equipment
Significant combat equipment includes the articles (not including technical data) enumerated in Categories . . . ; VIII (a), (b), (c) (excluding propeller-equipped cargo aircraft and propeller-equipped engines for cargo aircraft), GEMS as defined in (k) and inertial systems as defined in (l); . . ."

This change would remove the C-130 from the \$25 million ceiling on direct sales and retain all the arms export controls previously imposed on "defense articles."

All Georgians appreciate the consideration you are giving this most important problem which already has caused 1400 Lockheed-Georgia Company employees to have been laid off since the first of the year with several hundred more to follow by year end. I hope you will agree that the proposed administrative correction is appropriate and that the change can be effected in a timely manner.

In highest esteem and with deepest gratitude and warmest personal regards.

Sincerely

Zell Miller

ZM:dcl

bc: ✓ Mr. Charles L. Ray
Director
Advanced Programs Sales
Lockheed-Georgia Company
Marietta, Georgia 30063



Date: 6-22-77

Distribution: CLR:ew - 6-22-77

R. P. Barton
J. M. Chamberlain
D. T. Crockett, Jr.
C. E. Harris/M. J. Westerfield
A. H. Lorch
R. B. Ormsby
N. C. Ridings
E. J. Shockley

C. L. Ray

UNDER SECRETARY OF STATE
FOR SECURITY ASSISTANCE
WASHINGTON

June 27, 1977

Mr. Richard B. Ormsby
Lockheed-Georgia Company
Marietta, Georgia 30060

Dear Mr. Ormsby:

I refer to your letters dated March 29 and March 30 asking that the C-130 Hercules aircraft be excluded from the definition of significant combat equipment on the U.S. Munitions List.

The Department of State, in consultation with the Department of Defense and the Arms Control and Disarmament Agency, has carefully reviewed your request in light of the concerns expressed in your letter and the views of your legal counsel which you made available to us. On the basis of our review we have concluded that the C-130 aircraft should properly remain designated as significant combat equipment and that we cannot accede to your request. In reaching this conclusion, we have considered the intent of Congress in enacting the Arms Export Control Act, the basis for the present designation of the C-130 aircraft and the consequences of a change in that designation.

Selected items on the U.S. Munitions List were first designated as "significant combat equipment" in 1969. The original purpose of that designation was to identify those Munitions List articles which warranted special export controls because of their potential military value either in a direct or supportive role, or because of their incorporation of advanced sensitive technology.

The initial selection of items for the significant combat equipment designation was made by technical experts in the Departments of State and Defense, based upon their familiarity with the specific kinds of equipment which fall within the various categories of items comprising the Munitions List. All military aircraft on the Munitions List, including "cargo carrying or dropping" and

"personnel dropping" aircraft, were designated as significant combat equipment in this process. These designations were approved by the Secretary of State through an amendment to the International Traffic in Arms Regulations which established a requirement that the foreign purchaser of significant combat equipment provide the United States Government with a direct assurance against retransfer (22 CFR §123.10(d)).

Last year, in enacting the Arms Export Control Act, Congress adopted this Department's administrative designations of significant combat equipment as a part of the statutory definition of "major defense equipment." In doing so, the Senate Foreign Relations Committee indicated a desire that these designations be expanded to include certain military and space electronic equipment. (See S. Rept. No. 94-876, p. 46). Based on our discussions with members of Congress and their staffs in the course of the legislative process, we have no doubt that Congress intended to attach additional legal significance to our administrative designations.

As a result of the enactment of the Arms Export Control Act, designation of a Munitions List article as significant combat equipment now has the following additional legal consequences, if that article is one which, like the C-130 aircraft, meets the other elements in the statutory definition of major defense equipment:

1. Appropriate recoupment of research and development costs must be included in the price when the article is sold under the foreign military sales (FMS) program (section 21(e)(1)(c));
2. FMS cases and commercial exports of \$1,000,000 or more must be reported quarterly to Congress (sections 36(a)(1), (2) and (4));
3. FMS cases and commercial exports of \$7,000,000 or more must be reported to Congress at least thirty days in advance of issuance of the letter of offer or license (sections 36(b) and (c)); and

4. Export licenses may not be issued for commercial sales of \$25,000,000 or more to non-NATO countries (section 38(b)(3)).

Thus, the term "significant combat equipment" is not intended to describe Munitions List articles which are lethal weapons. Rather, it identifies items warranting more stringent export controls than other Munitions List articles because of their potential significance in military operations. The appropriateness of this designation for any item depends upon the reasonableness of applying these more stringent controls to that item. In this light, we do not believe the degree and type of control over C-130 exports can properly be diminished. While, as you point out, the C-130 has many beneficial non-military uses, it is designed to carry out as its primary mission the transport of troops and materiel for the conduct of military operations. The aircraft is equipped with numerous features which make it particularly suitable for military use, including the capacity for parachute drop of personnel and equipment. We do not see how we could distinguish between the military significance of the C-130 and many other items of significant combat equipment on the Munitions List.

We understand that you have no quarrel with any of the consequences of the significant combat equipment designation for C-130 aircraft except the prohibition on direct commercial sales over \$25,000,000 to non-NATO countries. Your concern over this limitation is that the foreign military sales procedures which must be followed in cases where direct commercial sales are prohibited are so time consuming. We are sympathetic to your concern in this regard. However, we do not believe that removal of the significant combat equipment designation for C-130 aircraft would be a proper solution. Such action on our part would seem arbitrary in light of the purposes of this administrative designation, the similarity of the nature of the C-130 to other similarly designated military equipment, and the reliance of Congress upon the reasonableness and consistency of our administrative classifications of defense articles in establishing the

statutory definitions contained in the Arms Export Control Act.

We are mindful of the important contribution made by Lockheed to the nation's defense production and, of course, wish to avoid the hardships that would result from an unwarranted interruption in the manufacture of C-130 aircraft. Accordingly, we have asked the Department of Defense to ensure that there are no unnecessary delays in FMS contracting procedures. In addition, we understand that you have discussed with the Secretary of Defense the arrangements being worked out to mitigate some of the difficulties caused for U.S. firms affected by the statutory requirements concerning sales of major defense equipment. We are confident that it will be possible to continue, through FMS channels, sales of major defense equipment which are consistent with U.S. law and policy.

I can assure you that we have given your request the most serious consideration. I regret that we are unable to give you a more favorable response.

Sincerely yours,

Lucy Wilson Benson

Lucy Wilson Benson
Under Secretary for Security
Assistance, Science and
Technology

I hope you will let me know if you think there are unnecessary delays developing. I will help push. LWB

THE SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

June 16, 1977

Honorable Sam Nunn
United States Senate
Washington, D. C. 20510

Dear Senator Nunn:

I am pleased to reply to your letter of 23 May 1977 and I appreciate your bringing to my attention your concern over C-130 aircraft. As I indicated at our meeting earlier today, however, I do not believe that the essential criterion for determining whether this aircraft should be classified as a military item is whether or not it is equipped with armament. The DoD position is based on the fact that this aircraft was specifically designed and built to serve as a military transport aircraft, and possesses unique short takeoff and airdrop capabilities. This permits a military organization to utilize the aircraft in restricted areas, which would be inaccessible to other competing types of commercial cargo aircraft. With its wide rear-drop cargo door, the C-130 can accept large items of equipment which would be difficult at best to load from the standard side-door configuration of other aircraft. Most importantly, this rear-door feature permits the quick airdrop of this equipment, as well as troops. These capabilities make the C-130 a valuable asset to ground troops, increasing their ability to deploy quickly, with accompanying equipment, and permitting rapid follow-on support in otherwise inaccessible locations. It is on this basis, rather than on the basis of whether or not the aircraft carries armament, that the DoD bases its judgement that this aircraft represents a significant combat capability for the military forces which deploy it, and we are so advising the Department of State.

On the matter of contracting leadtimes under Foreign Military Sales (FMS) which you mentioned in your 4 May 1977 letter to Secretary Vance, assuming a willingness to cooperate on both sides, there is no reason why FMS leadtimes to contract cannot be made commensurate with commercial leadtimes. Some of the ways to accomplish this are as we discussed at my meeting with you today. They include expedited processing within our Security Assistance Program and the use of letter contracts when appropriate. Lockheed has been advised of our readiness to cooperate in such efforts within the context of the President's new policy. This approach should assist them by jointly planning production schedules and contracting actions for approved sales. This is being done successfully with other contractors in similar situations, and it can be accomplished here also.

Sincerely,

Harold Brown

~~SECRET ATTACHMENT~~

THE WHITE HOUSE
WASHINGTON

July 15, 1977

Bert Lance
Z. Brzezinski

The attached was returned in
the President's outbox. It is
forwarded to you for your
information.

Rick Hutcheson

Re: New Security Assistance Program
for South Korea



THE PRESIDENT HAS SEEN.
EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

July 14, 1977

*Brown will be
cautious in any
commitments - so will
I - J*

~~SECRET-GDS~~

MEMORANDUM FOR: THE PRESIDENT

FROM: Bert Lance
Director

BRL -

SUBJECT: New Security Assistance Program for South Korea

You are being asked to make a series of decisions about U.S. deployments and assistance to Korea during the next four years in order to prepare Secretary Brown for the Security Consultative Meeting (SCM) in Seoul later this month. Because of the speed with which these issues have been developed and the other problems associated with Korea, I urge caution in making long term commitments at this time.

Assistance Options

The State/Defense memorandum presents four assistance options. Their preferred solution (Option B) and an alternative which I recommend are summarized below:

Fiscal Year	Manpower Withdrawn	\$ Millions					
		Annual FMS Credit		Special FMS Credit		Equipment Turnover	
		State	OMB	State	OMB	State	OMB
1978	6,000	275	275	400	50*	75	75
1979	-	275	275	-	-	-	-
1980	9,000	275	275**	-	-	70	70
1981	-	275	275**	-	-	-	-
1982	<u>Div(-)</u>	<u>275**</u>	<u>275**</u>	-	-	255	655
		1,375	1,375	400	50	400	800
				<u>State</u>	<u>OMB</u>		
Total Program			2,175		2,225		

*Reprogrammed 1977-78 funds.
**Planning figures, not to be committed at this time.

~~SECRET-GDS~~ *Jay 11/18/89*

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The OMB alternative would transfer the full \$800 million (replacement value) of equipment as under Option D. In addition, we could offer now to provide the ROKs an additional \$50 million in FMS credits (over and above the \$275 million annual 1978 program) to be obtained by reprogramming within the 1977-1978 worldwide FMS credit program. These additional credits would help meet the political-psychological need for something extra at the beginning of the withdrawal period and could be provided without the necessity to obtain additional authorization and appropriations from the Congress.

Under the OMB alternative, no commitment would be made to provide specific levels of FMS credit beyond the 1979 budget, but we would reassure the ROK of our continuing support for necessary force modernization. This approach would enable you to review levels of support in the latter years of the withdrawal period in the light of the ROK political and economic situation, the security balance on the peninsula as affected by ROK force improvements and the North Korean response, as well as our own budget considerations.

You should be aware that the intense efforts of the special task force produced no solid rationale for any particular level of U.S. support. With no clear case to present, the prospects for Congressional support would be uncertain even if Korea's other problems could be cleared away. These uncertainties strengthen the case for a program based primarily on turnover of equipment, because such actions can clearly be related to the departure of the division and not to some undefined master plan for development of the ROK forces. A major advantage of the OMB alternative is that provision of support would follow more closely the actual withdrawal schedule, making our task of selling the package on the Hill easier.

The State/Defense proposal to extend an additional \$400 million in FMS credit in 1978 might have the psychological advantage of providing more dramatic evidence of U.S. support, but this would depend on a favorable Congressional response, which in the present circumstances cannot be guaranteed.

It may be argued that greater reliance on FMS credits would reduce the cost of reequipping a relocated 2nd Infantry Division. However, if it is decided to retain the division in the U.S. force structure and reconfigure it for other missions, much of the equipment that would be retained under the State/Defense option might have to be replaced anyway.* Moreover, the number of the specific major items excluded from the turnover under the State/Defense option is marginal when compared with the Army's total inventory objectives.

*Zbig Brzezinski has suggested that, should the 2nd Division be retained, it be configured as a special U.S.-based worldwide mobile force.

<u>Item</u>	<u>Quantity</u>	<u>Percent of Inventory Objective</u>
M-60A1 Tanks	116	.8
M-113 Armored Personnel Carriers	181	.9
M-88 Tank Recovery Vehicles	20	1.5
CH-47 Helicopters	31	6.0

In the case of the other item at issue, UH-1H helicopters, the effect of leaving 67 more behind would be a 6 percent reduction in an average for this type of aircraft.

Credit Terms

The State/Defense memorandum also proposes that the repayment period for any special FMS credit be eased in order to "sweeten" the negotiation, a gesture worth \$13 million to the Koreans in the case of the State/Defense option and only \$1.6 million in the OMB approach. Because more generous terms for Korea will invite pressures for similar treatment from Indonesia, Thailand, and the Philippines, and cannot be justified on economic grounds, we recommend you disapprove this proposal.

War Reserve Munitions

OMB believes that we should also plan to transfer U.S. owned ammunition stocks stored in Korean operated facilities under the general turnover authority to be requested from the Congress. These are the so-called War Reserve Stocks for Allies (WRSA) stocks which, although designated for use by Korean forces, cannot now be issued to Korean units unless war actually begins. This problem became acute last August when ROK forces were prohibited from drawing ammunition even though a DEFCON 2 alert was declared. State and Defense recommend this problem be dealt with separately, primarily, we suspect, because to propose transfer of \$1.0 billion in nominally U.S.-owned ammunition stocks might jeopardize support for the special FMS aid package.

Defense proposes to retain U.S. ownership of the WRSA stocks in Korea and to seek annual approval of funding for additional stocks, in part on the grounds that we retain leverage over ROK actions through U.S. ownership even though the stocks are under ROK physical control. We believe we may miss an opportunity to rationalize the ammunition stock situation by not requesting authority to transfer the WRSA stocks to the Koreans in conjunction with our request for authority to turn over 2nd Division equipment. Moreover, the State/Defense approach would leave unclear the legal situation in regard to the authority to turn over the WRSA stocks in an emergency.

Given the complicated nature of the WRSA issue, I recommend Defense be directed to prepare a study of alternative solutions for consideration before final decisions on any legislative package.

Other Issues

We concur with the recommendation to seek special authority to make Korea eligible for excess defense articles and to indicate support for ROK defense industry within the terms proposed.

With regard to specific arms transfer decisions, we believe these decisions should be taken on a case-by-case basis in light of your overall arms transfer policies rather than be given special consideration during the Security Consultative Meeting. Of the cases mentioned, the Vulcan co-production proposal deserves special review before approval.

Legislative Strategy

Given the sensitivity of Korea matters on the Hill, I recommend you consult with the leadership before approving the State/Defense recommendation to submit special legislation during this session.

As Zbig's memo to you indicates, my staff and his have worked together closely on this matter.

THE WHITE HOUSE
WASHINGTON

July 15, 1977

William B. Gunter -

The attached was returned in
the President's outbox. It is
forwarded to you for your
information.

Rick Hutcheson

cc: Bob Lipshutz

Re: Indian Land Dispute in Maine

THE WHITE HOUSE
WASHINGTON

from The outbox

- cc to Bob Lapsky

cc Bill Gunter
of his letter
only

11:30 a.m.

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

July 14, 1977

Good!
J

MEETING WITH JUDGE WILLIAM GUNTER,
PRESIDENT'S SPECIAL REPRESENTATIVE
ON MAINE INDIAN LAND DISPUTE

Friday, July 15, 1977
11:30 a.m. (20 minutes)
The Oval Office

From: Doug Huron *DH*
Robert J. Lipshutz *RJL*

I. PURPOSE

Judge Gunter will present to you his recommendation concerning resolution of the Indian land dispute in Maine.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

- A. Background: Two Indian tribes in Maine have mounted serious legal claims to upwards of five million acres of land in the state. The Indians are supported by the Justice Department acting in its role as trustee for Indian tribes. In late March you appointed Judge Gunter to work with the parties--the tribes and State officials--and to present a recommendation to you. The judge has met with the parties, as well as with officials of Justice, Interior, OMB and the Maine Congressional Delegation, and is now ready to present his report.
- B. Participants: In addition to Judge Gunter, also in attendance will be Steve Clay, who has been assisting the judge, Bob Lipshutz and Doug Huron.
- C. Press Plan: There will be a brief photo session at the beginning of the meeting. Following the meeting Judge Gunter would like to release his report to the press and will ask whether you agree.

III. TALKING POINTS

Attached is a copy of Judge Gunter's report. The meeting should consist primarily of his explaining the salient points.

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SUMMARY OF RECOMMENDATIONS

Judge Gunter believes that the tribes' claim is not frivolous. Uncertainty surrounding ownership of the land in question is causing serious economic hardship in Maine and the Federal Government, through years of neglect, is largely responsible for this situation.

Judge Gunter has a six point recommendation which assumes acquiescence by both the tribes and the State. The Judge has also prepared contingent recommendations if either the tribes or the State refuse to accept the package. The six points are:

- (1) Appropriate \$25 million for the tribes;
- (2) Require the State of Maine to convey 100,000 acres to the tribes; the United States would hold the land as trustee (the State has about 500,000 acres of public land in the claims area--about 10 percent of the total land in dispute);
- (3) Accord the tribes normal BIA benefits in the future;
- (4) Have the State of Maine continue the benefits which it has already been extending to the tribes;
- (5) Attempt to obtain long term options on an additional 400,000 acres of land in the claims area; these options could be exercised at the election of the tribes who would be required to pay fair market value;
- (6) Assuming agreement between the parties on the first five points, have Congress extinguish whatever title the two tribes may now have.

* * * * *

If the tribes do not consent --

Have Congress extinguish title to all land in the claims area except that held by the State of Maine. The tribes could then proceed against the State.

If the State does not consent --

Appropriate the \$25 million for the tribes; extinguish the tribes' title to all the land in the claims area except that held by the State; permit the tribes to continue to sue the State for all 500,000 acres.

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LAW OFFICES

KILPATRICK, CODY, ROGERS, McCLATCHY & REGENSTEIN

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CHARLES R. BEAUDROT, JR.
ROBERT C. VARGA
JAMES M. KOELEMAY, JR.
W. STANLEY BLACKBURN
BARRY S. SCHEUR
ROBERT E. MEALE
J. PAUL TROUCHE
JOAN S. WILE
JOHN M. NANOS

Good!
J

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RECOMMENDATION TO: PRESIDENT CARTER

FROM: WILLIAM B. GUNTER

RE: PASSAMAQUODDY AND PENOBSCOT TRIBAL CLAIMS--MAINE

A. MY ASSIGNMENT

My assignment was to examine the problem created by these claims for approximately ninety days and then make a recommendation to you as to what action, if any, you should take in an attempt to bring about a resolution of the problem.

I have not acted as a mediator in this matter; my role has been more that of a judge; I have read the law and examined the facts; I have met and conferred with affected parties and their representatives; I have attempted to be objective, realizing that no one person can ever attain total objectivity; I have tried to come forth with a recommendation that, in my own mind, is just and practical; and I now proceed with a brief statement of the problem and my recommendation.

B. THE PROBLEM.

The pending court actions based on these tribal claims have the unfortunate effect of causing economic stagnation within the claims area. They create a cloud on the validity of real property titles; and the result is a slow-down or cessation of economic activity because property cannot be sold, mortgages cannot be acquired, title insurance becomes unavailable, and bond issues are placed in jeopardy.

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Were it not for this adverse economic result, these cases could take their normal course through the courts, and there would be no reason or necessity for you to take any action with regard to this matter. However, I have concluded that this problem cannot await judicial determination, and it is proper and necessary for you to recommend some action to the Congress that will eliminate the adverse economic consequences that have developed to date and that will increase with intensity in the near future.

I have concluded that the Federal Government is primarily responsible for the creation of this problem. Prior to 1975 the Federal Government did not acknowledge any responsibility for these two tribes. Interior and Justice took the position that these two tribes were not entitled to federal recognition but were "State Indians". In 1975 two federal court decisions, one at the trial level and another at the appellate level, declared that the Constitution adopted in 1789 and a Congressional enactment of 1790 created a trust relationship between the Federal Government and these two tribes. In short, the Federal Government is the guardian, and the two tribes are its wards. After the appellate decision, Interior and Justice concluded that the tribal claims would be prosecuted against private property owners owning property within the claims area and against the State of Maine for the properties owned by it within the claims area. Therefore, we have the unusual situation of the Federal Government being, in my mind, primarily responsible for the creation of the problem, and it is now placed in a position by court decisions of having to compound the problem by court actions that seek to divest private property owners and Maine of title to land that has heretofore been considered valid title. The prosecution of these cases by the Federal Government brings about the adverse economic consequences already mentioned.

I have concluded that the states of Maine and Massachusetts, out of which Maine was created in 1820, bear some responsibility for the creation of this problem. The states procured the land in the claims area, whether legally or illegally I do not now decide, and sold much of it. The State of Maine now owns, I am informed, somewhere between 400,000 and 500,000 acres of land in the claims area.

I have concluded that the two tribes do not bear any responsibility for the creation of the problem, and I have concluded that private property owners owning property within the claims area do not bear any responsibility for the creation of the problem.

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The problem is complex and does not lend itself to a simple solution because it is old and large. The factual situation giving birth to the problem goes back to colonial times and the early years of our life as a nation under the Constitution. Adding to the complexity is the fact that the problem is social, economic, political, and legal.

Enough about the problem--I move on to my recommended solution.

C. THE SOLUTION.

I have given consideration to the legal merits and demerits of these pending claims. However, my recommendation is not based entirely on my personal assessment in that area. History, economics, social science, justness, and practicality are additional elements that have had some weight in the formulation of my recommendation.

My recommendation to you is that you recommend to the Congress that it resolve this problem as follows:

(1) Appropriate 25 million dollars for the use and benefit of the two tribes, this appropriated amount to be administered by Interior. One half of this amount shall be appropriated in each of the next two fiscal years.

How many Indians?

(2) Require the State of Maine to put together and convey to the United States, as trustee for the two tribes, a tract of land consisting of 100,000 acres within the claims area. As stated before, the State reportedly has in its public ownership in the claims area in excess of 400,000 acres.

(3) Assure the two tribes that normal Bureau of Indian Affairs benefits will be accorded to them by the United States in the future.

(4) Request the State of Maine to continue to appropriate in the future on an annual basis state benefits for the tribes at the equivalent level of the average annual appropriation over the current and preceding four years.

(5) Require the Secretary of Interior to use his best efforts to acquire long-term options on an additional 400,000 acres of land in the claims area. These options would be exercised at the election of the tribes, the

not buy!

ADMINISTRATIVELY CONFIDENTIAL

option-price paid would be fair market value per acre, and tribal funds would be paid for the exercise of each option.

(6) Upon receiving the consent of the State of Maine that it will accomplish what is set forth in numbered paragraphs (2) and (4) above, the Congress should then, upon obtaining tribal consent to accept the benefits herein prescribed, by statutory enactment extinguish all aboriginal title, if any, to all lands in Maine and also extinguish all other claims that these two tribes may now have against any party arising out of an alleged violation of the Indian Nonintercourse Act of 1790 as amended.

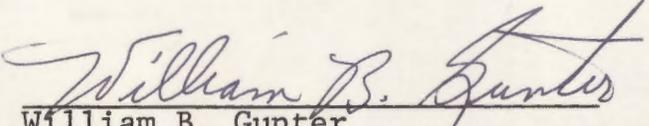
(7) If tribal consent cannot be obtained to what is herein proposed, then the Congress should immediately extinguish all aboriginal title, if any, to all lands within the claims area except that held in the public ownership by the State of Maine. The tribes' cases could then proceed through the courts to a conclusion against the state-owned land. If the tribes win their cases, they recover the state-owned land; but if they lose their cases, they recover nothing. However, in the meantime, the adverse economic consequences will have been eliminated and Interior and Justice will have been relieved from pursuing causes of action against private property owners to divest them of title to land that has heretofore been considered valid title. *prospect?*

(8) If the consent of the State of Maine cannot be obtained for what is herein proposed, then the Congress should appropriate 25 million dollars for the use and benefit of the tribes (see paragraph numbered (1)), should then immediately extinguish all aboriginal title, if any, and all claims arising under an alleged violation of the 1790 Act as amended, to all lands within the claims area except those lands within the public ownership of the State. The tribes' cases could then proceed through the courts against the state-owned land. If the tribes win their cases they recover the land; but if they lose their cases they recover nothing against the state of Maine. However, in the meantime, they will have received 25 million dollars from the United States for their consent to eliminate economic stagnation in the claims area and their consent to relieve Interior and Justice from pursuing causes of action against private property owners to divest them of land titles that have heretofore been considered valid. *Prospect?*

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It is my hope that the Congress can resolve this problem through the implementation of numbered paragraphs (1) through (6) above. Paragraphs (7) and (8) are mere alternatives to be utilized in the event consensual agreement cannot be obtained.

Respectfully submitted,


William B. Gunter

William B. Gunter

7-15-77

WBG:sk

1:35 p.m.

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

July 15, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: JIM FALLOWS *Jw.*

SUBJECT: Talking Points -- Reorganization Announcement

1) You are announcing two steps today:

-- a reorganization plan for the Executive Office of the President, which consists of the White House Office and sixteen other units; and

-- staff reductions and some reorganizations in the White House staff itself.

2) The EOP reorganization is the first of a series of reorganization plans you intend to submit, under the powers given you by Congress earlier this year.

-- in your fireside chat, you said that the place to begin with reorganization was at home, with your own staff. You are setting an example with this plan for the kind of improved performance and greater efficiency you hope reorganization will bring to the rest of the government.

-- this is also the appropriate place to start because the EOP is the President's own office, and you believe that Presidents should be able to organize it in the way that suits them best. The most important effect of this reorganization plan will be to improve the way the EOP helps you make decisions, develop policy, and do your job well.

3) The reorganizations concentrate on the process through which policy is made. The changes will bolster two of the procedures you believe are most essential to sound decision-making:

-- they will strengthen Cabinet government, by assuring that Cabinet members and agency heads are involved in making decisions and that they take charge of carrying them out.

-- they will do everything possible to guarantee that you have the broadest possible range of options, views, and information before you when you make your decisions--and that everyone has a chance to get his views to you on time.

4) The measures you are announcing today will make these changes:

-- they will reduce staff levels in the White House by 134, or 28 per cent. The authorized staff level will fall from the 485 you inherited at the beginning of the administration to 351.

-- that will be part of an overall reduction of 253, or 15 per cent, in the EOP staff. It will fall from 1712 to 1459.

19
- 9

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-- the plan will consolidate and reduce the number of EOP units. There were 19 units in the EOP when you took office; you have already abolished two (the Foreign Intelligence Advisory Board and the Economic Policy Board). This plan will eliminate seven others and modify the rest.

-- while you are determined, as these plans indicate, to keep staff size to the minimum efficient level, you recognize realistically that the demands on the President and his office change, and that it may be necessary to increase the staff sometime in the future.

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MEMORANDUM

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

INFORMATION

15 July 1977

TO:

THE PRESIDENT

FROM:

RICK HUTCHESON *Rick*

SUBJECT:

DNC Desk Report Summary (July 5-15)

1. A GOP poll shows Cong. Ron Sarasin (R-Conn.) defeating Gov. Ella Grasso, and other Republicans coming close. Sarasin is being urged to run by Republicans.
2. Egalton Poll of New Jersey (1027 sample) finds Carter's job rating: 58% positive, 32% negative, 10% undecided. The President's foreign policy was approved 58-23%, his economic policy 60-23%, and his energy program 54-33%.
3. The Mexican American Democrats group met in El Paso over the July 4 weekend, and were reportedly well-pleased by the number of Mexican-American Carter appointees, several of whom addressed the meeting.
4. John Greenfield (33; liberal; Church Pres. Campaign) has been elected Idaho Democratic State Chairman.
5. Maine Cong. Bill Cohen (R) has announced that he will seek statewide office in 1978 - probably Hathaway's Senate seat. Cohen is a formidable candidate.
6. Moon Landrieu, outgoing Mayor of New Orleans, is reportedly seeking an Ambassadorship. His name surfaces repeatedly in Louisiana papers with regard to various posts in the Carter Administration.

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THE WHITE HOUSE
WASHINGTON

July 15, 1977

Hamilton Jordan

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Jim King

RE: RAILROAD RETIREMENT BOARD
LABOR VACANCY

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

July 14, 1977

MEMORANDUM FOR: THE PRESIDENT
FROM: HAMILTON ^{N.J.} JORDAN
SUBJECT: RAILROAD RETIREMENT BOARD
Labor Vacancy

Just recently you nominated Earl Oliver to be a member of the Railroad Retirement Board; he will occupy the "management seat" on the Board.

The Board is a three member board, legislated by Congress, and by statute is made of one member recommended by railroad management, one member recommended by railroad labor organizations, and a third neutral member.

The labor seat is now available and Charles Chamberlain has been submitted as the "labor" candidate. He has been either a railroad employee or a rail union official all his adult life. He is considered by labor and management to be objective and fair minded, in close touch with the rank and file members, but able to see the broader picture. The United Transportation people particularly are in support of Mr. Chamberlain, as are all the railroad organizations. I recommend you approve appointment of Mr. Chamberlain.

Chamberlain ✓ Approve _____ Disapprove

Other: _____

Attachment: Bio and comments

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JULY 12, 1977

Office of the White House Press Secretary

THE WHITE HOUSE

The President today announced that he will nominate Earl Oliver, of Chicago, Illinois, to be a member of the Railroad Retirement Board. He would replace Wythe D. Quarles. Oliver retired from Illinois Central Gulf Railroad in 1975 and since then has performed staff work for the National Railway Labor Conference and the Railroad Labor-Management Committee.

He was born February 25, 1917, in Monticello, Kentucky. He received a B.A. from Oklahoma A&M College.

From 1941 to 1947 Oliver worked for the Chicago and Northwestern Railway, as a secretary, chief clerk, safety inspector, assistant trainmaster, and trainmaster. He was with Illinois Central Gulf Railroad from 1948 to 1975, working in various labor relations positions, then as manager of personnel, director of personnel, vice president for personnel, and finally senior vice president for personnel and administration.

#

Comments on Charles J. Chamberlain

Neil Spears, outgoing labor representative on the Board

I have known him for over twenty years and have worked closely with him over the last five years. I hold him in the highest regard. No one questions his honesty or integrity. He is of the highest character.

Graham Claytor, Secretary of the Navy

First class fellow. He is strong, a competent advocate, very pro-union but extremely fair minded.

William Dempsey, President, Association of American Railroads

Outstanding! I was a former chief negotiator on management's side and worked closely with him. He is a first rate, fair and hard working individual. None better.

Rev. James Bouman, Chamberlain's minister

He is a fine man who is close to the church and supportive of me and my ministry.

Al Chesser, President of U.T.U.

I know him very well... no hesitation whatsoever about his nomination.

Jim Wolfe, President, Chicago and Northwestern Railroad

I was a former general counsel for the railway industry and had the opportunity to cross examine Mr. Chamberlain on several occasions. He is one of the finest people I know, and I have great respect for his character.

THE WHITE HOUSE
WASHINGTON

7/15/77

Mr. President:

30 page memo from Secretary Bergland on food and agriculture legislation not submitted.

Stu Eizenstat's staff has read the memo, and informs me that you made all the relevant decisions at your meeting with Bergland yesterday.

Rick

9/

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DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

July 14, 1977

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Food and Agriculture Legislation

Status

We are entering the final and critical stages in the development of food and agriculture legislation. The Senate has passed its version (S.275). The House intends to begin deliberating H.R.7171 on July 15 and finish by July 21. The conferees plan to meet on July 25, and the Congress hopes to have a bill on your desk before they begin the summer recess on August 5.

The Congress is not likely to be able to meet this schedule unless we are fully prepared to help them complete their deliberations. Our people have been engaged in interagency discussions designed to develop the Administration's position with respect to House floor action and conference. The results of these discussions are presented in detail in Attachments 1-5.

I have talked with Chairman Foley. He will resist floor amendments, especially those involving target and market support prices for wheat and feed grains. This is understandable.

Chairman Foley and Representative Poage, the Chairman of the grains subcommittee, joined forces on an amendment to reduce the target and market support price levels that were reported out of their grain subcommittee, in the full committee. They won, by a single vote.

There is no way we can expect either Chairman Foley or Representative Poage to support the Administration on an amendment to further reduce these price levels. Without their support, I don't believe there is any chance of reducing them. There is widespread support for these H.R.7171 provisions.

A vigorous effort will be made to increase these prices, and it will have more support than an amendment to reduce them. Our task will be to support Foley and Poage in their efforts to hold the prices now in the bill.

Several other amendments to the commodity programs section of the bill that, generally, would mean higher outlays, and numerous floor amendments to the food stamp provisions are being prepared. The Administration should oppose all such amendments.

Overall, the House committee bill is much closer to the Administration's proposal than the Senate bill, especially with respect to the budget outlay implications of the commodity program provisions. I detect a willingness on the part of the conferees to report a bill even closer to the Administration's proposal than either the House or Senate bills. This would be accomplished by taking the provision from each bill that is the same as or closest to the provision we originally proposed.

We have an excellent chance of getting a bill that contains the basic principals advanced by the Administration. To do so, we need a few House floor amendments and agreement on the part of the conferees to accept the positions we favor, as detailed in the attachments. If this happens, there will be sufficient flexibility in the bill to keep costs at a fiscally responsible level. Those programs included within the \$2.0 billion annual average ceiling you gave me to work within can be operated in a manner that keeps outlays below the ceiling if the positions detailed below and in the attachments are in the final bill.

Scope

The bill the Congress passes will be comprehensive. It will authorize all our major and some minor commodity programs, amend our major food aid and food stamp authorities, and restructure and expand our food and agricultural science network and efforts.

Commodity Programs

Target Prices

Income support (deficiency) payments, when required, are made directly to producers based on the difference between target price and the market price (or the market support price if higher). This spread times the eligible production determines direct treasury outlays.

The target prices we proposed were based upon cost of production data, with the same cost components included for each major crop. Those we proposed and those in the Senate and House bills are compared on page 4 of Attachment #1.

The rice target price for 1978 in the Senate bill is \$8.83 per cwt; the House bill \$8.60. We proposed \$7.20. Thus, both bills have a rice target price that covers a much higher proportion of production costs than we proposed. It also deviates significantly from the basic principal we advanced, that producers of all crops should be treated the same in terms of income protection. The only way this inequity can be corrected is by a House floor amendment. I recommend an amendment that brings the rice target price in line with the other crops (\$7.55 per cwt). I believe this recommendation is supported by all your principal advisers. Agree _____ Disagree _____.

The target price for wool and mohair in both bills also deviates from our comparability principle. I recommend a House floor amendment to the formula to bring it down from 99 cents per pound to 87 cents for 1978. Again, there appears to be unanimous agreement on this recommendation. Agree _____ Disagree _____.

The cotton target price in the House bill is 5.3 cents a pound higher than we recommended; it is 1.1 cents (2 percent) higher in the Senate passed bill. I recommend we encourage the conferees to accept the 51.1 cent cotton target price in the Senate bill and the target price escalation formula in H.R.7171. Agree _____ Disagree _____.

The target price for corn in the House bill is \$2.10 a bushel, 5 percent or 10 cents above the level we recommended; it is \$2.28 in the Senate bill. For reasons previously discussed, I support the level provided for in the House bill, not only on the floor but also in conference. The wheat target price in the House bill is \$3.00 a bushel, 10 cents higher than we proposed. The Senate bill provides for a \$3.10 target. I recommend we provide strong support to Chairman Foley in his effort to hold the House provisions on the floor and in conference.

However, for us to support a target price of \$3.00 a bushel for wheat, \$2.10 for corn, \$7.55 for rice, and 51.1 cents for cotton, all slightly above the levels we originally proposed, we must have assurance from the conferees that:

1. I will be authorized to establish a target price for barley and grain sorghum based upon production costs, using the same formula as is used with respect to corn, wheat, cotton, or rice; and
2. There is language or sufficient legislative history that will permit me to require farmers to follow approved farming practices as a condition of eligibility for target price payments and market price support protection.

Without these authorities it will be very difficult to operate the programs in an equitable and cost effective manner.

Some of my colleagues want you to support a House floor amendment to substitute the target and market support prices that we proposed to the Congress. Such an amendment would be opposed by Foley and Poage. I am sure it would be defeated. I'm not even sure we could find a sponsor with credibility or power. I recommend we support the Chairman. Those who support this amendment are concerned over the potential impact on the budget. In that connection, these points need to be noted: First, I can assure you that the major commodity programs can be operated in a manner that will keep average annual costs below the \$2.0 billion we previously discussed if we get the other amendments and positions I recommend. Second, the difference between the wheat target price and the market support price in the House bill is exactly the same as we proposed; the House increased the target price and the loan rate by 10 cents a bushel. Therefore, the potential budget outlay for direct payments is the same as we proposed. Third, even though the corn target price is 10 cents above the level we proposed, and the market support price the same, the authorities contained in the bills with respect to set-aside and diversion will permit me to operate the program in a manner that at least in most years eliminates the possibility of making target price payments. The market price need only be 5 percent above the loan rate in order to foreclose the possibility of making target price payments for corn.

Do you agree with my recommendations on wheat and feed grains _____, or favor a floor amendment providing for the target prices we originally proposed _____ ?

1977 Target Prices

The House bill has a 1977 wheat target price of \$2.65 a bushel; the Senate passed bill has \$2.90 a bushel. Current legislation provides for a \$2.47 target price. The market support price is \$2.25 a bushel, and the price received by farmers averaged only \$2.00 in June. Wheat producers today are in a more difficult position than any other commodity group. Unless the legislative effort fails, they will receive a payment late this year of at least 40 cents a bushel (\$2.65-\$2.25), which will help but many producers will not be able to cover their costs from wheat returns this year. Wheat producers question how we can argue that \$2.65 is an adequate level for 1977 when we admit that \$2.90 for the following year still does not cover all costs. Most producers have costs of production above \$2.65. I recommend that we support Chairman Foley in his efforts to hold the \$2.65 on the House floor, but be prepared to accept a compromise level of \$2.75 - \$2.80 in conference. This position will expose us to an additional \$190 - \$285 million in outlays, but will serve as an economic stimulus in depressed areas and will, therefore, have a minimal impact on inflation.

Decision: Accept \$2.75 - \$2.80 target price in conference _____;
hold for \$2.65 in conference _____.

Market Support Prices

The market support prices we proposed are compared with those in the Senate and House bills on page 4 of Attachment #1. We must oppose the Senate provisions due either to higher levels or to the formula used to escalate them in years subsequent to 1978. The House provides the escalation formula we proposed and will be supported in conference.

The support price for wheat is \$2.35 a bushel in the House bill instead of the \$2.25 we proposed, while corn is supported at \$2.00, as we proposed. This may create a problem in that wheat may not be competitive in grain markets at all times, but I believe we can live with it. Therefore, I recommend we support the House market support prices for all commodities both on the floor and in conference.

Agree _____, or floor amendment to bring wheat to \$2.25 _____.

The Administration originally proposed a mandatory downward adjustment in grain market support prices whenever prices are within 5 percent of the support level. Neither the House nor the Senate agreed to the provision. Congressman Findley is prepared to introduce our provision as a floor amendment with additional safeguards to guarantee producer returns through target price payments. Chairman Foley does not want to support this amendment, and I am inclined to go with him. However, I believe Charlie Schultz and maybe others favor this amendment. Any such amendment, if supported by the Administration, should be offered by a majority member. Do you oppose _____ or favor _____ this amendment?

Food Aid

Food Aid (PL 480) legislation comes under the jurisdiction of two committees in the Congress, Agriculture and International Relations. Interagency agreement has been reached on all P.L.480 amendments. The recommended Administration conference position on them are listed in Attachment #2.

Food Stamp Program

The reforms in both the House and Senate bills are closely in accord with the Administration proposals. Both eliminate the purchase requirement, tighten eligibility requirements, simplify the program, and reduce the potential for fraud and abuse.

Undesirable provisions are minor and are few in number, and we hope to improve on these in conference (see Attachment #3).

The outlay estimate for FY 1978 in the current services budget for the food stamp program is \$5.674 billion. This estimate was based upon a projected unemployment rate of 7.1 percent at the beginning and 6.2 percent by the end of fiscal year 1978. Alternatively, an unemployment rate of 6.6 percent this fall and 6.1 percent by the end of the 1978 fiscal year would reduce program participation and, under current services, the outlay estimate for fiscal 1978 declines to \$5.332 billion.

The more favorable employment projections applied to the two-year Senate Bill indicate a cost slightly under \$5.5 billion annually. Under similar assumptions, the four-year House Bill is projected to average about \$5.58 billion annually, but less than the Senate Bill for the first two years for which a comparison is valid. The average cost for both bills are comfortably below the Administration's 1978 budget estimate.

The House and Senate bills entail slightly higher costs than the Administration proposal because they include a deduction for any shelter costs which exceed 50 percent of a household's income and for child care costs necessary to allow a person to work. However, both bills reduce the basic standard deduction that we proposed by 25 percent in order to balance off most of the added costs of the shelter and child care deductions.

The added costs of the House and Senate bills over the Administration proposal are small, especially when compared to the major program improvements contained in the bills, which are along the lines we proposed in nearly all major areas. Moreover, the average costs are expected to remain in the \$5.5 - \$5.6 billion range, at or below food stamp costs for the past few years. I recommend that we seek the amendments identified in Attachment #3 in conference to secure costs lower than those of the Senate version and that we be prepared to accept the version that emerges from conference.

Agree _____ Disagree _____

Research and Education

The House and Senate Bills both include a major title for food and agricultural research and education. The Department of Agriculture would be assigned the lead agency role with respect to national food and agriculture science.

The provisions involve coordination, expanded efforts in priority areas, and widening participation in research and education beyond the USDA and Land Grant University system.

These bills have general merit in addressing needed changes in the food and agricultural scientific community. There is widespread agreement on the need for greater support of the food and agriculture sciences and the Congress will support the general thrust of the proposed legislation. However, the proposed legislation will require some floor amendments and considerable melding of the separate bills to meet our objectives.

Teaching

H.R. 7171 includes related education and teaching provisions while S. 275 does not; we will oppose the House version since it gets us into matters that are HEW's responsibility.

Production of Industrial Hydrocarbons

Both bills authorize pilot projects for the production of industrial hydrocarbons from agricultural commodities. The Administration favors a floor amendment to delete this authority on the basis that it is a responsibility of the Energy Research and Development Administration.

Solar Energy

Both bills authorize an expansion in USDA's involvement in agricultural solar energy research, development and demonstration. We believe USDA should have direct authority to fund solar energy activities that are related to agriculture, and that ERDA should continue to have grant authority. OMB favors leaving all solar energy research authority with ERDA. Do you agree to a limited role for USDA _____, or leave it all with ERDA _____?

International Research and Extension

A provision in H.R.7171 would require USDA to expand its role in international activities related to food and agricultural research and education. This title provides for exchanging research materials, results, and scientists; supporting international food and agricultural sciences by providing training opportunities for foreign nationals; and developing careers within USDA for scientists who specialize in international activities. Coordination with AID, the extension system, and the university system is mandated.

This provision would make USDA an equal partner with AID on these matters. Under current arrangements, AID is the lead agency. USDA favors the legislation; AID favors the present arrangements.

Do you favor the legislation _____, or present arrangements _____?

The recommended Administration position on other research and education provisions is given in Attachment #4.

Budget Outlays

Budget outlays for the legislative proposals depend mainly upon assumptions about world weather patterns, use of set-aside authority, food aid levels, economic growth and unemployment rates and the appropriation of funds.

Research and education outlays would be significantly higher if authorized amounts were appropriated. There may be increases for research and extension, but the amount is not expected to be significantly different due to the legislation alone.

The impact of the P.L. 480 amendments on food aid outlays is not significant.

Food stamp outlays are expected to be less than in recent years, and lower than the amount in the budget for FY 1978, but at \$5.5 to \$5.6 billion could be \$150 to \$250 million above the most recent FY 78 outlay estimate.

The major points to note about the commodity program outlay estimates are:

1. The Senate bill clearly exceeds the \$2.0 billion guide you earlier established, primarily due to significantly higher commodity price and income support levels.

2. H.R. 7171 can be administered so that average annual outlays for the programs included in the \$2.0 billion constraint stay within it.

3. Nevertheless, even with the amendments I recommend, average annual outlays for all the commodity programs, including those added by the Congress and those outside the ceiling, will be \$400 - \$600 million above the amount that would have been required to fund the programs we recommended to the Congress.

SUMMARY

Chairman Foley and all of us involved in advancing our position on the House floor and in the conference committee will need some guidance as to the total legislative package that will be acceptable to you. I think we are all in agreement that a bill like S.275 is clearly unacceptable. However, would you sign a bill consistent with:

H.R. 7171 _____

H.R. 7171 amended as I recommend _____

Bob Bergland
Secretary

A large, stylized handwritten signature in blue ink, appearing to read 'Bob Bergland', is written over the signature lines of the two options above. The signature is fluid and somewhat abstract, with large loops and a long tail.

Proposed Administration Position on
Commodity Program Provisions

The Senate and House Bills authorize:

- Income and/or price support programs for producers of rice, wheat, feed grains, upland cotton, peanuts, soybeans, milk, wool and mohair;
- The diversion or "set-aside" of cropland when grain or upland cotton supplies are deemed to be excessive;
- Payments to partially cover losses due to events beyond the control of grain, cotton, milk, and honey producers;
- Programs to encourage grain to be held in reserve, and for farmers to build storage facilities;
- The use of acreage planted for harvest in the year of concern instead of historical acreage when making payments to producers if prices are below "target" or when a natural disaster strikes; and
- Limits on payments to grain and cotton producers.

The principals advanced in these bills are quite consistent with those proposed by the Administration. Several provisions were added, and the income and price support levels are higher than we proposed. This escalates potential treasury outlays above those associated with the Administration's proposals. With good weather, average annual outlays to fund the commodity programs authorized in the Senate passed bill would be \$2.0 to \$2.2 billion higher than for our proposals; the House committee bill programs would require \$400 to \$600 million more each year.

Even so, if we can get a few House floor amendments and if the conferees agree to the positions favored by the Administration, there will be sufficient flexibility in the bill to keep the costs at a fiscally responsible level. Those programs included within the President's \$2.0 billion annual average ceiling can be operated in a manner that keeps outlays below this amount.

There will, however, be attempts to sweeten the House bill on the floor. We will vigorously support Chairman Foley in his efforts to defeat such amendments.

There will be an amendment to impose a payment limitation on our proposed sugar program; the Administration will aggressively oppose this amendment as it would effectively kill the program for 1977.

Proposed Administration House Floor Amendments

Wheat Target Prices

The Administration proposed a 1978 target price of \$2.90 per bushel which was raised to \$3.00 in H.R. 7171 and \$3.10 in S. 275 (table 1). The House adopted \$2.65 for 1977 compared to \$2.90 in the Senate. Floor amendments are expected in the House to change the 1977 and 1978 levels, but Chairman Foley will vigorously oppose any changes. The Department recommends that we strongly support the Chairman in resisting changes on the floor. We recommend working in the Conference to achieve compromise levels for 1977 and the acceptance of the House levels for 1978. Presidential decision required.

Corn Target Prices

The Administration proposed a 1978 target of \$2.00 per bushel compared to \$2.10 in the House and \$2.28 in the Senate. It is the Department's position to oppose any changes on the floor and accept the House levels in conference. A Presidential decision is required.

Rice Target Price

The Administration proposed a 1978 target price of \$7.20 per hundredweight for rice, but both bills have a much higher level (about \$8.60 and \$8.80 in 1978). The Administration supports a floor amendment to make the rice target price consistent with the other grains. If a \$3.00 target is eventually accepted for wheat, a rice target of \$7.55 would be supported by the Administration.

Cotton Target Price

S. 275 bases the cotton target price upon cost of production while H.R. 7171 sets the target equal to 110 percent of the loan level. We favor the cost of production concept. If Chairman Foley indicates that the House Conferees are not likely to consent to the Senate formula, the Administration will support a floor amendment to base the cotton target price on the cost of production formula for grains as in H.R. 7171.

Wool Support Levels

H.R. 7171 requires a support rate on wool of at least 85 percent of the level in a formula which has been inoperative in recent years. The effect would be to raise supports from \$.72 to \$.99 per pound in 1978. The Administration recommended a discretionary support rate of \$.75 to \$1.00 per pound. We propose a floor amendment to change the minimum support to 75 percent of the formula level in place of 85 percent. This amendment would set the level at about \$.85 per pound in 1978.

Income Support Payments for Grain

H.R. 7171 and S. 275 both base income support (deficiency) payments on the difference between the target price and the average market price for the first 5 months of the marketing year. The Administration favors a floor amendment

to base the payments upon the average price for the entire marketing year with a partial payment based upon the 5 month period.

Flexible Loan Rates for Grain

Congressman Findley is expected to introduce a floor amendment to allow a reduction in the loan rate for grain by 5 percent if market prices fall to within 5 percent of the support. Incomes to producers would be guaranteed by an adjustment in the target price to maintain their revenue levels. A Presidential decision is required.

National Program Acreage

The national program acreage is the acreage needed to produce the desired quantity of a commodity. Whenever actual acreage is in excess of this amount, the national program acreage is divided by the actual acreage to determine the program allocation factor. This factor is the proportion of the crop that will be covered by deficiency payments when market prices are below the target price.

The Senate bill limits the allocation factor to 90 percent for wheat, feed grains and cotton. The House bill has a limit of 80 percent for wheat and feed grains. Chairman Foley will support a cotton program floor amendment that deletes provisions that provide for the use of historically based cotton acreage allotments for program payment and set-aside purposes and replaces them with current year planting in a manner similar to the Administration's proposal. The Administration will support this amendment.

The cotton program floor amendment also contains a provision that makes a producer eligible for deficiency payments on all acreage planted for harvest if he reduces his acreage by a percentage at least equal to a desired change. Only those who plant in excess of the national goal will have an allocation factor below 100 percent. This replaces the imposition of an arbitrary limit on the allocation factor. The Administration favors broadening this amendment to include grains.

Soybean Set-Aside

The Administration proposed that provisions be included to allow set-aside of soybean acreage if market conditions warrant supply controls. The Administration supports a floor amendment adding a provision comparable to that for grain to allow soybean set-aside.

Weaver Grain Reserve Amendment

Congressman Weaver is expected to introduce an amendment to require an expanded level of grain reserves with the support of Church groups. This provision will expand Treasury outlays and restrict CCC authority. We favor the S. 275 reserve program provisions, and will oppose this amendment.

Beekeeper Indemnity Program

The Administration favors a floor amendment to terminate this program because of reported abuses and since costs appear much greater than the benefits.

Table 1.--Proposed target and loan rates for the 1978 crop

Item	Target prices - 1978 crop				
	Unit	Admini- stration	Senate	House	Recommendation
					Secretary: 1/
<u>Dollars</u>					
Wheat <u>2/</u>	bu.	2.90	3.10	3.00	3.00
Corn	bu.	2.00	2.28	2.10	2.10
Rice	cwt.	7.20	8.83	8.60	7.55
Cotton	lb.	.500	.511	.553	.511
Wool & mohair	lb.	.75-1.00	.99	.99	.87

1/ Floor amendment needed to achieve the Secretary's recommended rice target price, others can be achieved in conference.

2/ The Secretary recommends Administration support for holding the \$2.65 on the floor of the House but given the depressed economic conditions in wheat areas (price received by farmers was only \$2.00 a bushel in June), a compromise at \$2.75-\$2.80 in conference is recommended.

Item	Market price supports				
	Unit	Admini- stration	Senate	House	Recommendation
					Secretary
<u>Dollar or % parity</u>					
Wheat	bu.	2.25	2.47+	2.35	2.35
Corn	bu.	2.00	2.00+	2.00	2.00
Rice	cwt.	6.19	6.63	6.31	6.31
Cotton	lb.	.503	.503	.503	.503
Milk	*	75-90	<u>1/80</u>	<u>2/80</u>	<u>1/80</u>
Peanuts	ton	390	420	420	420
Soybeans	bu.	<u>3/</u>	4.00	<u>3/</u>	<u>3/</u>

1/ Two year limit.

2/ Four year limit.

3/ Discretionary.

*% of parity.

Good Farming Practices

The authority in either bill to require farmers to follow approved farming practices as a condition of eligibility for farm programs is unclear. Legislative history may be sufficient; if not a House floor amendment will be supported.

Barley and Grain Sorghum Target Prices

The Administration's position is to base target prices upon the cost of production. The target price for barley and grain sorghum in relation to corn should therefore be based upon differences in production costs. This basis for establishing other target prices is apparently contrary to the intent of provisions in H.R. 7171 or S. 275, although the wording is unclear. A floor amendment is necessary to accomplish the Administration's objective unless adequate legislative history can be developed.

Conference Positions

(Assuming President accepts recommendations of Secretary)

Length of Bill

S. 275 extends programs through 1982 while H.R. 7171 expires after 1981. We support an extension through 1981.

Wheat and Feed Grains

1977 Wheat Target Price

The target price for 1977 in S. 275 is \$2.90 per bushel compared to \$2.65 in H.R. 7171. The market price may average below the \$2.25 loan rate for June-October since the price averaged only \$2.00 in June. If so, the deficiency payment will be the difference between the support price (\$2.25) and the target price. We propose to accept a 1977 target price of \$2.75-\$2.80 per bushel as an acceptable compromise. This increase will give a needed influx of cash to producers in financial trouble without a significant inflationary impact and will provide an economic stimulus to the depressed wheat areas. A level above \$2.65 per bushel is easier to defend since we have agreed that a level of at least \$2.90 per bushel is necessary beginning in 1978.

1978 Wheat Target Price

The 1978 wheat target price is \$3.10 in S. 275 and is expected to be \$3.00 in H.R. 7171. The Administration will support the House level and escalation formula.

1977 Corn Target Price

H.R. 7171 proposes a 1977 corn target price of \$1.85 per bushel, but the Senate left the level unchanged at \$1.70. We accept \$1.85 per bushel.

1978 Corn Target Price

H.R. 7171 proposes \$2.10 per bushel compared to \$2.28 in S. 275. The Administration will support the House level and the escalation formula.

1977 Income Support (Deficiency) Payments

H.R. 7171 allows payments on the 1977 grain crop based upon acreage planted for harvest. S. 275 continues to allow payments to a producer in 1977 based upon his allotment. The Administration favors the House provision provided adjustments can be made to exclude acreage planted after the normal planting season was over.

Wheat Loan Levels

S. 275 sets the minimum loan at \$2.47 per bushel in 1978 and 85 percent of the target price thereafter. Deductions for storage may not be made. H.R. 7171 sets the minimum at \$2.35 for 1978-81. Since the higher Senate

levels would reduce utilization, the Administration will aggressively support the House provisions.

Feed Grain Loan Levels

S. 275 establishes the minimum corn price support at \$2.00 per bushel in 1978 and 85 percent of the target price thereafter. H.R. 7171 sets the minimum at \$2.00 per bushel through 1981. Both base the loan level for other grains on their feeding values relative to corn. The Administration will vigorously support the House provisions.

Farm Program Acreage

S. 275 provides that the individual farm program acreage for each crop of wheat, feed grains, or cotton shall be determined by multiplying the program allocation factor by the acreage planted for harvest. The program allocation factor is determined by dividing the national program acreage by the number of acres estimated to be harvested for the crop, but cannot be less than 90 percent.

H.R. 7171 uses the same formula to determine the allocation factor as S. 275. However, H.R. 7171 allows the factor to be as low as 80 percent of the acreage harvested on the farm. Our conference position depends upon whether a floor amendment can be passed to make farm program acreage provisions for grains consistent with the proposal for cotton. If the amendment is successful, we favor the revised House provision on allotments in conference. If not, we support the minimum 80 percent factor in the House bill.

Determination of Set-Aside Acreage

S. 275 provides the Secretary with the authority to proclaim a set-aside of cropland if he determines that the total supply of wheat or feed grains will, in the absence of set-aside, be excessive. H.R. 7171 provides the Secretary with the same authority but mandates an announcement before planting. The language of S. 275 is preferred by the Administration.

Basis for Set-Aside

Set-aside acreage under H.R. 7171 may be based on either the acreage of cropland planted in the previous or the current crop year. H.R. 7171 also provides that the Secretary may limit the acreage planted to a grain on the farm to a percentage of that grain planted to harvest in the previous crop year. S. 275 bases set-aside upon the previous year's plantings. The Administration strongly supports the greater flexibility in H.R. 7171.

Disaster Program Provisions

H.R. 7171 provides for low yield payments if because of natural disaster the total yield of wheat or feed grains is less than 50 percent of an established average for the farm. Payments equal 80 percent of the target price for the deficiency in production below 50 percent of average. Prevented planting payments are based on the smaller of the acreage intended for wheat or feed grains in the current year or the average acreage planted for harvest in the

preceding three years. The payment equals 20 percent of the target price multiplied by 75 percent of the yield. S. 275 provides for low yield disaster payments if the actual yield is less than 75 percent of an established average. The payment rate is equal to 33 1/3 percent of the target prices for the deficiency below 75 percent. A prevented planting payment equal to one-third of the target price on 75 percent of the average yield is made if a producer qualifies. The disaster program is extended only through the 1979 crop. The Administration will support coverage of 2/3's of a crop planted for harvest at 1/2 the target price in conference, and will favor a two year extension of authority.

CCC Sales Price Restriction

S. 275 extends current law through 1982 and provides that Commodity Credit Corporation stocks of wheat, corn, grain sorghum, barley, oats, and rye not be sold at less than 115 percent of the national average loan rate, and not less than 110 percent of the minimum release price when a farmer owned reserve program is in effect. H.R. 7171 has a minimum resale price of 150 percent of loan. The Administration supports the Senate provisions.

Upland Cotton

Cotton Target Price

S. 275 sets the 1978 target price at 51.1 cents per pound. Targets for 1979-82 are based upon total costs including land and management. Target prices in H.R. 7171 are set at 110 percent of the loan rate for 1978-81. The Administration favors the target price level in S. 275 combined with the escalation formula for grains in H.R. 7171.

Program Acreage

If the proposed floor amendment is successful in the House, we will favor the farm program acreage provisions that will be contained in H.R. 7171. The provisions in S. 275 for determining program acreage are preferred if the House amendment is not passed, with the exception of the limit on the allocation factor of 90 percent.

Set-Aside

S. 275 allows a set-aside based on prior year plantings. H.R. 7171 will permit basing set-aside on current year plantings. The Administration favors the provision authorizing the use of current year plantings but prefers the S. 275 language with respect to other set-aside provisions.

CCC Sales Price Restriction

S. 275 requires CCC to sell upland cotton for unrestricted use at the same price it sells cotton for export, but not less than 115 percent of the loan rate for Strict Low Middling one and one-sixteenth inch upland cotton (with adjustments). H.R. 7171 is the same except the level is 110 percent of the loan rate and base quality is 1-inch. The S. 275 provisions are preferred.

Disaster Payments

S. 275 has the same disaster payment provision as for grain (75 percent of production at 1/3 the target price). H.R. 7171 will contain identical provisions unless amended on the House floor. S. 275 provides for prevented planting payments on the smaller of (1) the acreage to be planted to cotton or (2) the acreage planted to cotton for harvest in the immediately preceding year (H.R. 7171 uses the preceding 3-year average) multiplied by 75 percent of farm program payment yield times one-third of the target price. The Administration finds the House provisions to be the least objectional.

Miscellaneous Provisions

Grain Reserves

Under S. 275 the Secretary could offer 3-5 year loans to wheat and feed grain producers to create a reserve of 300-700 million bushels. Loans redeemed before the market price reached 140-160 percent of current loan rate would require principal repayment, interest, and storage charges. Loans would be recalled when market prices reach 200 percent of loan rates.

H.R. 7171 would allow wheat and feed grain loans to be extended for 12 months, with no interest charge and storage payments of 1 cent per bushel per month to the producer. A second 12 month extension would be at the Secretary's discretion of the market price exceeds 75 percent of parity.

S. 275 is favored except with a change allowing loans to be recalled when market prices reach 175 to 200 percent of loan rates.

International Emergency Food Reserve

S. 275 authorizes the President to negotiate with other nations to develop an international system of food reserves for humanitarian food relief and to maintain a reserve of food commodities as a contribution of the United States to the system. The Secretary is directed to build stocks of food of two million tons or to levels established under international agreement, but not to exceed six million tons. Stocks may be added to the reserve from price support programs or by open market purchases of the CCC. The Administration supports this provision.

Set-aside on Summer Fallow Farms

H.R. 7171 provides that if in any crop year at least 55 percent of the cropland acreage on an established summer fallow farm is diverted to a summer fallow use, additional acreage is not required to be set-aside under the wheat, feed grains, and cotton programs. S. 275 does not contain this restriction. The Administration opposes the House provision.

American Agriculture Protection Program

H.R. 7171 provides that if export sales of any commodity are suspended to any country or area with which the U.S. continues commercial trade, the loan level for that commodity shall be set at 100 percent of the parity price on the day of suspension and remain in effect as long as the export suspension is maintained. S. 275 does not contain similar provisions. The Administration

opposes the House provisions.

Special Grazing and Hay Program for Wheat Acreage

H.R. 7171 authorizes the Secretary to administer a special wheat acreage and grazing program. Producers would be permitted to designate a portion of their wheat, feed grain, or upland cotton allotment or acreage for the previous year to be planted to wheat and used for grazing or hay. Crops other than hay could not be harvested from this acreage. Producers would receive a payment equal to \$1 per bushel of their program yield for wheat. S. 275 does not provide for this program.

The Administration favors deletion of the language in H.R. 7171.

Critical Lands Resource Conservation Program

H.R. 7171 authorizes the Secretary to enter into two-year contracts with producers in which producers agree to devote to soil conserving cover crops (legumes) a specifically designated acreage of cropland (up to 50 percent) which had been planted to soil depleting crops in the previous two years. Payments up to \$30 per acre would be authorized. S. 275 makes no provisions for this program. The Administration favors deletion of this language.

Dairy Indemnity Program

H.R. 7171 extends the dairy indemnity program through 1981. This program compensates dairy farmers and manufacturers who sustain losses as a result of pesticide contamination and is extended in the bill to provide payments for milk that could not be marketed due to contamination with nuclear radiation. S. 275 authorizes indemnity payments for milk or cows producing milk to farmers or manufacturers who are directed to remove their milk or dairy products from commercial markets because of the presence of products of nuclear radiation or residues of chemicals or toxic substances provided such contamination is not the fault of the farmer or manufacturer. Indemnity payments will not be made if the Secretary decides within 30 days that other legal recourse is available to the farmer or manufacturer. The Administration opposes the S. 275 provisions concerning indemnity payments for residues.

Payment Limitations

S.275 limits payments to \$50,000, for commodity programs (wheat, feed grains, upland cotton, extra long staple cotton, and rice) but excludes disaster payments, loans, and resource adjustment payments. H.R. 7171 limits payments to \$35,000 in 1978 for wheat, feed grains, and upland cotton with the level escalating 10 percent per year. A separate limitation is applied to rice. Disaster payments are subject to the limitations. The Administration opposes any amendments to the payment limitations section on the House floor. We prefer to let Congress set the level in conference but to accept the Senate provision which excludes disaster payments from the limitation.

Proposed Administration Positions on Food Aid
(P.L. 480) Admendments

Food aid legislation comes under the jurisdiction of two committees in the Congress: Agriculture and International Relations. Some amendments to P.L. 480 are in the Foreign Development and Assistance Bill; others, in the bills from the Agriculture Committee, are covered in this attachment.

Title I of P.L. 480 authorizes long-term concessional loans to finance purchases of U.S. commodities. The recipient country is responsible for purchasing commodities and arranging ocean transportation.

Title II of P.L. 480 authorizes donations of commodities and most ocean transportation costs. USDA purchases the commodities. Ocean transportation is arranged by both USDA and participating voluntary agencies.

Agencies involved in food aid programs have resolved their different viewpoints and agree upon the Conference positions stated in the following paragraphs.

Price Supported and Non-Price Supported Commodities

The Senate passed bill includes a "sense of Congress" resolution indicating it wants the Administration to avoid discrimination between price supported and non-price supported commodities made available under Title I.

We favor the intent of this resolution, but because it is the "sense of Congress" instead of a mandate and because authority now exists to provide non-price supported commodities, the Administration will not take a position on this issue.

Authority for the Commodity Credit Corporation to Act as Purchasing or Shipping Agent Under Title I

This provision is only in S. 275. The Administration supports this provision. It would help small, poor countries not having commercial representation in the United States.

Purchase Procedures (Title I)

Requires public tenders and prohibits commissions to selling agents. Both bills contain essentially the same language except the Senate provision would apply only to food commodities. The Administration supports the Senate language; there are difficulties in requiring public tenders for nonfood commodities such as tobacco and cotton which, unlike food commodities, are not generally traded on a standard grade or type basis.

Reporting Requirements

Requires that suppliers of commodities and ocean freight financed under Title I make reports (to be published) of any compensation (i.e., agents' fees) paid

to any representative of an importing country. This provision is only in the House bill; the Administration does not object to it.

Authorization Level (Title II)

Increases the level from \$600 to \$750 million. Same language in both bills, except Senate version allows indefinite carryover of unobligated authorizations. The Administration supports the House language.

Determination of Commodity Availability for P.L. 480

Authorizes the Secretary of Agriculture, during periods of limited supplies, to make available necessary quantities of agricultural commodities under P.L. 480 to:

- carry out humanitarian or developmental purposes of the Act (Senate);
- carry out urgent humanitarian purposes of the Act (House).

The Administration supports S. 275 language because it provides more flexibility in meeting food-aid program objectives.

Publication of Regulations

A Senate amendment requires that USDA update and publish its P.L. 480 regulations in the Federal Register on a regular basis and furnish copies to the Congress. The Administration does not oppose this provision.

Participation by U.S. Suppliers

A Senate amendment requires that program regulations be designed to increase the number of exporters, especially small firms and cooperatives, participating in the Title I program, and that such regulations (unless waived by the Secretary of Agriculture) should limit participation of any single firm to 25 percent of planned programming for any commodity during a fiscal year. The Administration supports the intent of this amendment but believes this would be better accomplished by other means, such as the amendment requiring public tenders for all food commodities. A quota system could place a burden on recipient countries by forcing them to purchase from other than the lowest bidder; it also could give rise to manipulation (e.g., by setting up subsidiaries) to circumvent the 25 percent limit.

Revised Definition of When a Commodity Is Exported

A Senate amendment requires that bagged commodities be considered "exported" upon delivery at port and upon presentation of a dock receipt in lieu of an on-board bill of lading. The intent of this provision is to increase participation of small firms in P.L. 480 program. The Administration supports the intent of this amendment but opposes this particular provision. It could cause serious administrative problems if the recipient country were forced to assume title to the commodities prior to loading on board a vessel. Questions concerning responsibilities for storage costs, loss and damage claims, and fumigation expenses would be most difficult to resolve. Moreover,

this provision would not necessarily increase the number of suppliers in the program because any competitive advantage would be shared by all suppliers, not just small exporters.

Extension of Program

P.L. 480 legislation is extended for 2 years by House bill and 5 years by Senate bill. The Administration favors a 4-year extension to keep P.L. 480 legislation consistent with domestic farm legislation.

Reimbursements to the Commodity Credit Corporation

Both bills provide that reimbursement to CCC for commodities acquired under price-support operations and programmed under P.L. 480 be made at the export market price of the commodity rather than at the CCC acquisition cost. The language is similar in both bills except that S. 275 applies to the entire program, while H.R. 7171 covers only those commodities programmed under the Title II donations program.

While USDA favors the greater flexibility of the Senate version, the STR opposes the Senate provision on the grounds that it might be construed as a hidden subsidy. The Administration supports the House proposal.

Study of P.L. 480 Administration

A provision in S. 275 requires the Secretary of Agriculture to appoint a task force to review the administration of P.L. 480 and submit its report to the Congress in not more than 18 months. The report is to include actions the Secretary intends to take to improve the administration of the Act and any legislative actions that may be necessary.

The Executive Branch is not opposed to this provision. However, in view of the fact that the Administration already has underway a study that will include a review of the matters of concern to the Senate, Senator Humphrey will be requested to withdraw this provision. If he does not agree to do so, we will not force the issue.

New Spending Authority

A provision of H.R. 7171 would limit new spending authority for Title I to such amounts as are provided in appropriation acts. This amendment was prompted by a House Budget Committee decision that, without this provision, the P.L. 480 legislation would be subject to a point of order. Currently Title I program levels can be adjusted within the Executive Branch utilizing the borrowing authority of the CCC. This matter will be left to the Congress to resolve.

Proposed Administration Position on Food Stamp
Program Provisions

Conference Positions

General Comment

The food stamp titles of the two bills are remarkably similar and are also close to the Administration proposal. However, tough challenges on the House floor to introduce provisions which are unacceptable to the Administration and Chairman Foley are anticipated. Our Conference position is dependent on events in the House. Generally, we will support the House bill as it now stands.

Workfare Project in Each State

H.R. 7171 establishes a workfare project in each State under which recipients would "work off" their benefits with no pay. Since this provision conflicts with welfare reform plans, we will seek a reduction in the number of these projects in Conference.

Programs on Indian Reservations

The Senate provisions on the operation of feeding programs on Indian reservations are much more sweeping and somewhat more costly than the provision in H.R. 7171. We support the House provision in Conference.

Administrative Costs of the Commodity Supplemental Program

We oppose the S. 275 provision which requires us to pay 20 percent of the Administrative costs of the commodity supplemental program, about \$3 million per year.

Proposed Administration Positions on
Research and Education Provisions

The House and Senate Bills both include a major title for food and agricultural research and education. The Department of Agriculture would be assigned the lead agency role with respect to national food and agriculture science. Food and agriculture science is broadly defined to include all matters normally associated with the food and agriculture system plus forestry, range management, aquaculture, family life, rural and community development. In short, the scope is as broad as the present missions of the USDA.

The provisions involve coordination, expanded efforts in priority areas, and widening participation in research and education beyond the USDA and Land Grant University system. H.R. 7171 includes related education and teaching provisions while S. 275 does not.

Both bills authorize an expansion in USDA's involvement in agricultural solar energy research, development and demonstration. The House bill grants USDA authority to be a full participant in international related food and agriculture research and education.

These bills have general merit in addressing needed changes in the food and agricultural scientific community. There is widespread agreement on the need for greater support of the food and agriculture sciences and the Congress will support the general thrust of the proposed legislation. However, the proposed legislation will require some floor amendments and considerable melding of the separate bills to meet our objectives.

Proposed Administration House Floor Amendments

Spending Authority

The Senate passed bill provides discretionary authority on amounts authorized to be appropriated while the House bill provides specific dollar authorizations for most subtitles. The Senate bill contains a "sense of Congress" provision that research and extension funding should be a function of the amount we spend for food and the value of our agricultural exports. The Administration favors the discretionary authority in the Senate bill and will seek in conference the elimination of the "sense of Congress" section on funding.

Bob Bergland will talk with Chairman Foley about his willingness to accept a House floor amendment that would give us discretionary authority in lieu of the specific authorization in the House bill. If Chairman Foley is not willing to take such an amendment to the floor, we will seek his support for the Administration's position in Conference.

International Research and Extension

A provision in H.R. 7171 would require USDA to expand its role in international activities related to food and agricultural research and education. This title provides for exchanging research materials, results, and scientists; supporting international food and agricultural sciences by providing training

opportunities for foreign nationals; and developing careers within USDA for scientists who specialize in international activities. Coordination with AID, the extension system, and the university system is mandated.

This provision would make USDA an equal partner with AID on these matters. Under current arrangements, AID is the lead agency. USDA favors the legislation; AID favors present arrangements. The Administration's position will be determined by the President.

Production of Industrial Hydrocarbons

The bill authorizes pilot projects for the production of industrial hydrocarbons from agricultural commodities. The Administration favors a floor amendment to delete this authority on the basis that it is a responsibility of the Energy Research and Development Administration.

Proposed Legislative Changes to be Pursued in Conference Committee

Training Provisions

The House bill includes provisions on teaching, as well as on research and extension. The Senate bill does not include provisions on teaching. The Administration recommends the Senate provisions on the basis that teaching is a matter to be handled by HEW.

Federal Subcommittee on Food and Renewable Resources

The bills establish a Subcommittee to plan, coordinate and recommend policies for food and agricultural research. The Administration favors having DOD and TVA among the agencies represented on the Committee, as provided in the House bill.

Joint Council

The bills establish a Joint Council to assist the Secretary in his coordination and planning responsibilities and the Board in its advisory and reporting responsibilities. The Administration favors the provisions of the House bill which give the Secretary more flexibility in determining who can contribute ideas to the Council rather than provisions of the Senate bill which list 22 representatives who are to be on the Council.

The Administration favors provisions of the Senate bill for clerical assistance and staff personnel for the Council. This avoids the excessive supergrade levels including 15 full time GS-13-16 professionals and an Executive Level V Director.

Users' Advisory Board

Multi-member Board reviews policies, programs and priorities of federal food and agricultural research, and follows the program of the Experiment Stations, Extension, and private institutions.

Administration favors provisions in Senate bill establishing the Board and its membership, as membership in the Senate version more adequately represents a wide range of interests and excessive staffing is avoided. The Chairman should be elected by users.

The Administration prefers omission of provisions in Senate bill for five working panels. This introduces unnecessary detail into the legislation which could hamper the work of the Board.

Special Research Grants

The Administration favors language of House bill, which provides 5-year grants to land-grant universities, experiment stations and other colleges with food and agricultural research capacity. An institution may receive only one grant annually; there is no matching requirement. Deletion of the sentence on overhead costs is favored by the Administration.

Research Facilities Grants

The Administration strongly favors the provision in the House bill which makes the 1890 Institutions and Tuskegee eligible for research facility grants in the allocation formulas.

Colleges of veterinary medicine, which receive funds for animal disease research, would also become eligible for facilities grants in the Senate bill. The Administration favors the Senate provision.

Nutrition Research and Education

The Administration favors provisions in the Senate bill, which describe the Secretary's responsibilities for food and human nutrition education and research. Favor changes in S. 275 to strike ARS and ES wherever it appears and insert USDA so that the Secretary has the authority to delegate these responsibilities.

Favor use of term, Animal Disease Research, in the titles and in the text, as in the Senate Bill.

Favor deletion of the Animal Disease advisory board. Other coordination provisions in the legislation should be adequate.

Favor matching provisions of Section 1331 of S. 275 which limits Federal funds for animal disease research to an amount equal to \$100,000 over the non-Federal contribution.

Favor deletion of provisions in House bill providing for grants to establish schools of veterinary medicine, because need for additional veterinary schools has not been established.

1890 Land-Grant Funding

The Administration strongly favors the House language which provides for research and agricultural and forestry extension and a floor under the level

of funds and its allocation. Provisions of S. 275, which provide a ceiling on funding to the 1890 institutions, are unacceptable.

Educational Grants and Fellowships

The Administration opposes the provisions of the House bill for training grants at the undergraduate and graduate levels because this is a form of institutional support that is more appropriately handled in HEW.

Research Awards

Favor establishing two \$50,000 awards for research by outstanding scientists as provided for in the House bill.

Special Emphasis for Extension

Favor House provisions which provides direction to carry out extension programs emphasizing small farms, nutrition, energy conservation, forestry and animal diseases.

Payment of Funds

Favor Section 1329 of H.R. 7171 which provides that funds will remain available for one additional year following appropriation to allow payment of unliquidated obligations.

Libraries and Information Network

Favor provision for improvements in coordination and utilization of existing facilities as in the House bill.

Miscellaneous

Favor payment for travel of non-Federal scientists for research planning, and partial relief for two years from extension matching requirements for Guam and Virgin Islands as in the House bill.

Studies and Special Reports

Favor House bill which requires an annual report on research and extension to Congress, as contrasted to the Senate which requires a report and funding recommendations from the Secretary.

Favor the Senate requirements for a report of the Users' Advisory Board to include reviews, assessments, and recommendations as contrasted to the House which is not specific about what will be in the Report.

Favor House bill which provides for an evaluation of the Extension Service.

Favor House bill which calls for agricultural research facilities study.

Favor deletion of House provisions calling for a study on weather effects-- newly initiated action programs of USDA are more effective than this study.

Solar Energy Research and Development

In general, USDA believes it should have direct authority to fund solar energy activities that are related to agriculture.

USDA favors the following:

- Senate bill amendments to current USDA research, extension and rural development authorities that would authorize appropriated funds to be used to conduct solar energy research, provide extension services and credit for solar energy activities, provided they are directly related to agriculture;
- The provision in both bills that require USDA to compile information on solar energy research programs related to agriculture;
- House bill provisions authorizing funds to establish solar energy model and demonstration farms, but in cooperation with all interested State organizations; and
- Senate bill language providing discretionary authority on appropriations instead of the \$20 million annual authorization in the House bill.

USDA favors elimination of the following:

- House bill language on a solar energy advisory committee, since a separate committee is not needed;
- The competitive grant provision in the Senate bill, since ERDA already has such authority; and
- The regional solar energy research and development centers provided for in the Senate bill, also in view of the ERDA program.

Proposed Administration Position
on Miscellaneous Provisions

Conference Position

Federal Grain Inspection

S. 275 includes provisions amending grain inspection statutes. H.R. 7171 does not contain such provisions, and such inclusion is opposed by Chairman Foley. Two grain inspection bills are under separate consideration by the House. H.R. 5604 is similar to the S. 275 provision. H.R. 6135 has provisions closer to the Administration's position. We favor deleting the provisions in S. 275 and working outside the farm bill to reach acceptable legislation.

Public Access Payments

S. 275 provides for payments to landowners who will allow public access to their property. The Secretary in consultation with the Secretary of Interior shall develop appropriate guidelines for the program. The Administration does not oppose this provision.

Deferred Payments on Emergency Loans

S. 275 permits the Secretary to defer payments of principal or interest on emergency loans in any area eligible for emergency loans for up to three years. This provision is opposed by the Administration since it is related to separate legislation being developed that may include a number of provisions affecting the emergency loan program.

Authorization for Soil Conservation and Domestic Allotment Act

S. 275 changes the appropriation authority allowing funds to be carried over and to designate funds for long term agreements. The Administration favors this provision.

Agricultural Conservation Program

S. 275 amends the Agricultural Conservation Program and incorporates the provisions in H.R. 7269. The Administration favors this provision with certain technical changes.

Congressional Approval of Watershed Protection and Flood Prevention Loans

H.R. 7171 raises from \$250 thousand to \$500 thousand the maximum level for loans without Congressional approval. S. 275 increases the level to \$1 million. The Administration takes no position on these provisions.

Watershed Loan Authority

S. 275 raises the loan authority under the Watershed Protection and Flood Prevention Act from \$5 million to \$10 million. The Administration takes no position on this provision.

Rural Community Fire Protection

S. 275 and H.R. 7171 contain provisions to extend this program through 1980. The Senate makes some minor modifications in program requirements. The Administration would like to substantially change this program but does not take a position on the House or Senate provisions for the Conference.

Reserve on Guaranteed Loan

S. 275 would amend the Consolidated Farm and Rural Development Act to require that the Secretary retain a reserve against losses equal to 15 percent of the full amount of any contractual liability on guaranteed loans. The Administration opposes this provision since it would require an increase in appropriations.