

Kay Luther
Mayflower

MAY 15, 1987

TO: SENATOR DOLE
FROM: MARK SCANLAN
SUBJECT: AMERICAN COTTON SHIPPERS ASSOC.

NOTE: Neal Gillen suggested you arrive from the Connecticut Ave. entrance and proceed to room #253. They will have a photo op for about 10-15 minutes and they will be presenting you an award.

You will be introduced by their President, Marvin Woolen. About 600 people will be in attendance, including representatives of banking, textile, transportation, warehousing, insurance and producer interests. There will also be 25 representatives of foreign cotton producing and consuming countries. The Cotton Shipper's Assoc. includes 525 member firms, including farm coop members who handle 80% of the cotton sold to U.S. textile mills and 90% of the cotton exported.

This will be their first convention in Washington.

Some of their interests include:

- U.S. & EC ag budgets at breaking point
- Farm Bill beginning to work
- Cotton & Rice programs are working
- Land values appearing to stabilize
- Presidential campaign/Any topic you'd be interested in commenting on

Secretary Lyng will also speak during the convention discussing his recent trip to Japan. Senator Leahy will speak to them Friday morning.

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AMERICAN COTTON SHIPPERS ASSOCIATION

- O I WANT TO WELCOME YOU TO WASHINGTON. UNDERSTAND THIS IS THE FIRST CONVENTION YOU HAVE HELD HERE.

- O ITS A PLEASURE TO ADDRESS YOUR 63RD ANNUAL MEETING. HAD THE OPPORTUNITY TO SPEAK TO 53RD ANNUAL MEETING BACK IN 1977. APPRECIATE THE WORKING RELATIONSHIP I'VE HAD WITH MEMBERS OF YOUR ASSOCIATION.

1985 FARM BILL

- O I WOULD LIKE TO MAKE A FEW BRIEF COMMENTS REGARDING AGRICULTURE AND THE GENERAL FARM SITUATION. THE GENERAL CONCENSUS SEEMS TO BE THAT THE 1985 FARM BILL IS WORKING. OTHER COUNTRIES ARE BEGINNING TO PLANT LESS ACREAGE AS THE U.S. HAS BECOME MORE COMPETITIVE, TOTAL U.S. EXPORTS SHOULD BE UP ABOUT 10% OR MORE, NET CASH FARM INCOME WILL BE A RECORD \$48 BILLION THIS YEAR AND FARM EXPENSES, AFTER HAVING DECLINED \$7 BILLION IN 1986, WILL BE DOWN AGAIN, BY ABOUT \$5 BILLION THIS CALANDER YEAR.

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- O HOWEVER, THE LOW FARM PRICES HAVE RESULTED IN HIGH PROGRAM COSTS IN AN EFFORT TO PROTECT FARM INCOME (\$25.6 BILLION IN FY 86; ESTIMATED \$25.2 BILLION IN FY 87).

- O FEDERAL OUTLAYS EQUAL ABOUT 2.8% OF THE FY 87 BUDGET COMPARED TO 5% BACK IN 1955. ALSO, CONSUMER GROCERY BILLS NOW TAKE 11 CENTS OF EACH DOLLAR OF DISPOSABLE INCOME COMPARED TO 16 1/2 CENTS A DECADE AGO.

- O A DECLINING PROPORTION OF INCOME SPENT FOR FOOD LEAVES MORE MONEY FOR OTHER THINGS, AND IS AN OFTEN-USED INDICATOR OF A RISING STANDARD OF LIVING.

- O SO I WOULD SUGGEST THE AMERICAN FARMER IS PROVIDING AN INDIRECT SUBSIDY TO THE AMERICAN CONSUMERS, SINCE FOOD COSTS ARE DOWN A THIRD IN LESS THAN A DECADE.

- O IT MAY TAKE A FEW YEARS, BUT MANY OF US BELIEVE THAT THE ROLE OF GOVERNMENT IN FARMER'S LIVES NEEDS TO BE REDUCED. WE WANT FARMERS TO GET A HIGH PRICE, BUT WE WANT THAT PRICE GENERATED FROM THE MARKET AND NOT FROM THE GOVERNMENT.

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MARKET-TRADE ORIENTED

- O THE GENERAL DIRECTION INTENDED IN THE 1985 FARM BILL IS TOWARDS GREATER MARKET ORIENTATION -- TO HELP US REGAIN MARKETS AND PROTECT FARM INCOME IN THE PROCESS.
- O THE EUROPEAN COMMUNITY, ONE OF OUR PRINCIPAL COMPETITORS, WILL SPEND ABOUT \$24 BILLION THIS YEAR, TWO-THIRDS OF THEIR ENTIRE BUDGET, AND DOUBLE THE AMOUNT THEY SPENT FIVE YEARS AGO.
- O SO I SUGGEST IT IS IN EVERYBODY'S BEST INTERESTS TO COME TO AN AGREEMENT ON OUR TRADING DISPUTES ON FARM POLICY REFORM; UNTIL WE DO, WE'LL NEED TO SHOW OUR COMPETITORS THAT THE U.S. IS WILLING TO PROTECT OUR MARKET SHARES.

COTTON PROGRAM

- O WE ARE SEEING A DRAMATIC TURNAROUND IN COTTON AND RICE DUE TO THE MARKETING LOAN IMPLEMENTED IN THE 1985 FARM BILL. COTTON EXPORTS WILL BE THREE TIMES THE LEVEL OF LAST YEAR. COTTON STOCKS ARE PROJECTED TO BE 60 PERCENT LOWER THIS AUGUST THAN A YEAR AGO.
- O DOMESTIC CONSUMPTION WILL BE ABOUT 15% HIGHER THIS YEAR THAN LAST YEAR AND COTTON PROGRAM COSTS WILL BE DOWN BY 50 PERCENT FROM LAST YEAR.

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COTTON PROGRAM (CON'T)

- O MARKET PRICES HAVE REBOUNDED, AND THE ADDITIONAL ECONOMIC ACTIVITY GENERATED FROM GREATER PRODUCTION, PROCESSING AND SALES VOLUME WILL GENERATE ABOUT \$11 BILLION, FROM COTTON ALONE, OVER THE LIFE OF THE FARM BILL.

- O A GOAL OF THE FARM BILL WAS TO ACHEIVE A LEVEL PLAYING FIELD IN WORLD MARKETS IN A MANNER THAT RESPONDS TO SUBSIDIES INITIATED BY OTHER NATIONS RATHER THAN INITIATING THE ACTION FROM OUR SIDE.

BUDGET DEFICITS

- O THE FEDERAL GOVERNMENT CONTINUES TO RUN A DEFICIT OF NEARLY \$200 BILLION A YEAR -- ONE-FIFTH OF OUR PROJECTED TOTAL EXPENDITURES IN 1987. LET ME ASSURE YOU THAT REDUCING THE FEDERAL DEFICIT IS ONE OF MY TOP PRIORITIES.

BUDGET REDUCTION FOR AGRICULTURE

- O THE HOUSE AND SENATE AGRICULTURE COMMITTEES WILL BE ASKED TO REDUCE FARM SPENDING BY ABOUT \$1.5 BILLION PER YEAR THROUGH FISCAL YEAR 1990. MAINTAINING THE 1985 FARM BILL IN ITS EXISTING STRUCTURE, WHILE REDUCING SPENDING WILL BE DIFFICULT TO ACHEIVE.

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PAYMENT LIMITATION

- O GIVEN THAT URBAN CONGRESSMEN WERE SUCCESSFUL LAST YEAR IN IMPOSING A \$250,000 CAP, I EXPECT THE PAYMENT LIMIT ISSUE WILL BE BROUGHT TO OUR ATTENTION AGAIN. I WOULD NOT EXPECT ANY ACTION UNTIL AUGUST OR SEPTEMBER, BUT I WOULD ENCOURAGE YOU TO PARTICIPATE IN THE DEBATE. AND I WOULD APPRECIATE ANY SUGGESTIONS THAT YOU HAVE.

LOAN RATES

- O SOME OF MY COLLEAGUES ARE SUGGESTING WE FREEZE LOAN RATES OR RAISE THEM A DIME. WHILE THIS WOULD EASILY GENERATE SAVINGS, IT WOULD ALSO BE SHORTSIGHTED. TO SIMPLY REVERSE THE DIRECTION OF THE FARM BILL BY REMOVING THE FLEXIBILITY TO ADJUST LOAN RATES TO REFLECT SUPPLY AND DEMAND WOULD BE BOTH CONTRADICTORY AND DAMAGING TO AMERICAN FARMERS.
- O OBVIOUSLY, THE BUDGET MUST BE ADDRESSED THIS YEAR. AND SOME REDUCTIONS IN AGRICULTURE WILL UNDOUBTEDLY BE CONSIDERED. NEED TO LIGHTEN THE IMPACT OF ANY CUTS BY ENSURING THAT OTHER FEDERAL PROGRAMS STAND THE SAME SCRUTINY.

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FARM CREDIT

- 0 THE BIGGEST ISSUE IN AGRICULTURE NOW IS FARM CREDIT. IT IS CLEAR THE FARM CREDIT SYSTEM, WHICH HAS LOST \$4.5 BILLION OVER THE LAST TWO YEARS, WILL NEED ASSISTANCE IN 1987.
- 0 THE SYSTEM HAS ASKED CONGRESS FOR A \$6 BILLION LINE OF CREDIT. CREATES A SPECIAL SEVEN MEMBER BOARD TO ALLOCATE FEDERAL ASSISTANCE TO THE 12 DISTRICTS. THE BOARD MAKEUP WOULD BE THE SECRETARY OF TREASURY, SECRETARY OF AGRICULTURE, CHAIRMAN OF FEDERAL RESERVE, CHAIRMAN OF FARM CREDIT ADMINISTRATION AND THREE SYSTEM OFFICIALS.
- 0 THE ADMINISTRATION HAS PROPOSED GUIDELINES AIMED AT "DECENTRALIZING" THE SYSTEM. THE PROPOSAL IS DESIGNED TO GUARANTEE BORROWER STOCK, KEEP LOCAL CONTROL AND RETAIN ACCESS TO THE CREDIT MARKETS. A \$5 BILLION RESERVE FUND WOULD BE ESTABLISHED, WITH A 10 YEAR LINE OF CREDIT, TO GUARANTEE SYSTEM-WIDE BONDS AND NOTES. THE MONEY WOULD HAVE TO BE REPAID WITH INTEREST IF DRAWN UPON.

FARM GROUP PROPOSAL

- 0 I AM PLEASED TO SEE THAT FARM ORGANIZATIONS -- THE FARM BUREAU, PORK PRODUCERS, COTTON COUNCIL, CATTLEMEN, AND OTHERS -- HAVE TRIED TO REACH A "MIDDLE GROUND" AND HAVE PROPOSED A PACKAGE WITH STRONG BORROWER ORIENTATION.

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CREDIT LEGISLATIVE PRINCIPLES

- O MAKE THE SYSTEM COMPETITIVE, SO THAT ALL BORROWERS, NOT JUST THE BEST BORROWERS, CAN HAVE LOWER INTEREST RATES.
- O ENSURE PROTECTION OF BORROWER STOCK.
- O WE WILL ALSO WANT TO LOOK AT MAINTAINING THE COOPERATIVE NATURE OF THE SYSTEM AND ENSURING LOCAL CONTROL BY BORROWERS.
- O PUT THE SYSTEM ON A SOLID LONG-TERM BASIS RATHER THAN SIMPLY HAVING A DIRECT LINE OF CREDIT FROM THE TREASURY.
- O IN EXCHANGE, THE SYSTEM WILL NEED TO MAKE SOME STRUCTURAL REFORMS.
- O SUPPORT THE CREATION OF A SECONDARY MARKET FOR FARM MORTGAGES, TO BE AVAILABLE TO ALL LENDERS FOR FARM REAL ESTATE LOANS. THE INCREASED AVAILABILITY OF FUNDING SHOULD BRING GREATER COMPETITION IN PROVIDING FOR FARM CREDIT NEEDS RESULTING IN LOWER INTEREST RATES.
- O VARIOUS PROPOSALS ARE IN THE PROCESS OF BEING DRAFTED NOW AND I WOULD HOPE CONGRESS COULD ACT ON THE PROBLEMS OF THE FARM CREDIT SYSTEM BY THE LABOR DAY RECESS.

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TOBACCO TALKING POINTS

- O I'M NOT A TOBACCO EXPERT -- WE HAVE ONLY TWO OR THREE ACRES IN KANSAS. HOWEVER, I'VE SUPPORTED TOBACCO FARMERS, AS WELL AS PRODUCERS OF OTHER CROPS, THROUGHOUT MY 27 YEARS IN THE CONGRESS.
- O IN 1985, WE WERE ABLE TO ESTABLISH A SORT OF EQUILIBRIUM IN TOBACCO POLICY. WE ALLOWED FOR THE SALE OF ABOUT \$1 BILLION IN SURPLUS TOBACCO UNDER CCC LOAN IN EXCHANGE FOR KEEPING THE CIGARETTE EXCISE TAX AT 16 CENTS PER PACK. WE HAVEN'T HAD TO CHANGE THE PROGRAM AGAIN SINCE THEN, SO IT MUST BE WORKING RELATIVELY WELL.
- O ITS PRETTY CLEAR THAT AN INCREASE IN EXCISE TAXES -- PARTICULARLY IN THE SO-CALLED "SIN-TAXES" - WILL GET ANOTHER LOOK IN THIS YEAR'S BUDGET DEFICIT DEBATE. I APPRECIATE ALL THE ARGUMENTS ABOUT HOW REGRESSIVE EXCISE TAXES ARE, AND HOW THEY FALL MORE HEAVILY ON THE POOR. I MUST INDICATE, HOWEVER, THAT THE LACK OF GOOD ALTERNATIVES WILL FORCE CONGRESS TO LOOK VERY HARD AT EXCISE TAXES IF THE BUDGET NUMBERS REQUIRE IT.
- O MANY PEOPLE IN STATES LIKE NORTH CAROLINA AND KENTUCKY ARE DEPENDENT ON TOBACCO AS THEIR MAIN OR SOLE SOURCE OF INCOME. I DON'T SEE THESE FARMERS OUT CAMPAINING TO STAMP OUT CERTAIN INDUSTRIES OR PROGRAMS FOUND IN THE BIG CITIES WHICH MANY FIND OBJECTIONABLE.
- O I THINK TOBACCO CRITICS SHOULD THINK ABOUT THE LIVELIHOOD OF PEOPLE WHO HAVE GROWN UP AROUND THE CROP AND THE FACT THAT, IN CERTAIN AREAS, TOBACCO IS AN ECONOMIC MAINSTAY.

- O OVER THE LONG TERM, MY UNDERSTANDING IS THAT CONSUMPTION OF TOBACCO PRODUCTS IN THE U.S. IS PROJECTED TO DECLINE. I AM AWARE THAT GOVERNOR MARTIN HAS EXPLORED GROWING NEW CROPS WITH RISING COMMERCIAL POTENTIAL. IF WE ARE NOT SUCCESSFUL IN GETTING COUNTRIES LIKE JAPAN, KOREA, AND TAIWAN, TO REMOVE FOREIGN BARRIERS TO TOBACCO IMPORTS, THEN IT MAY BE WISE TO PURSUE EFFORTS TO ENSURE YOUR STATE'S AGRICULTURAL BASE REMAINS VIABLE.

- O THE KEY FACTOR IS STABILITY. FARMERS HAVE TO DEAL WITH MANY VOLATILE EVENTS -- NOT TO MENTION THE WEATHER. ANY CHANGES IN THE LEGISLATION OR REGULATIONS WHICH AFFECT PRODUCTION AND MARKETING DECISIONS MUST BE CAREFULLY WORKED OUT IN CONSULTATION WITH PRODUCERS. CHOICES THAT MAY APPEAR TO BE TOUGH CAN BE HANDLED IF THE OBJECTIVES ARE CLEAR, A TRANSITION IS PROVIDED FOR, AND EVERYONE INVOLVED IS A PARTICIPANT IN THE DECISION.