

*Lumber
Bum + Fair Lakes
Muscle Shoals.
dash*

TALKING POINTS
MUSCLE SHOALS, ALABAMA
MAY 28, 1986

*Noted. Just
Don. Carter*

ALABAMA AG SITUATION

- MOST IMPORTANT ALABAMA COMMODITIES, IN ORDER OF SALES AND INCOME, ARE POULTRY, CATTLE, AND SOYBEANS. MUSCLE SHOALS AREA IS CENTER FOR COTTON AND SOYBEANS.
- MARKETING LOAN WILL MAKE U.S. COTTON EXPORTS COMPETITIVE IN WORLD MARKETS. PROGRAM BEGINS AUGUST 15.
- I HAVE ASKED LYG TO CONSIDER USING DISCRETION TO USE MARKETING LOAN FOR SOYBEANS, WHEAT AND FEED GRAINS. THE EXPORT ENHANCEMENT PROGRAM IS NOT WORKING FOR THESE CROPS.
- UNDERSTAND ALABAMA IS DEFICIT IN MILK PRODUCTION: 50% IS BROUGHT IN. DAIRY HERD BUY-OUT PROGRAM IS TEMPORARY ADJUSTMENT, BUT LOWER PRICES ARE A HARDSHIP TO CATTLEMEN. NEED TO FIND A LONGER-TERM ANSWER FOR THE DAIRY SURPLUS SITUATION.
- THE 30 MILLION ACRE CONSERVATION RESERVE IN THE FARM BILL WILL BE A BIG HELP TO ALABAMA'S TIMBER INDUSTRY. FIVE MILLION ACRES ARE EARMARKED FOR TREE PRODUCTION.

-2-

COTTON/TEXTILE ISSUES

O ECONOMIC BACKGROUND

-- IMPORTS OF COTTON PRODUCTS INCREASED BY 28% IN 1984 ALONE. IMPORTS NOW ACCOUNT FOR 38% OF DOMESTIC RETAIL SALES.

-- ONLY 20% OF THE COTTON CONTENT OF IMPORTED TEXTILES AND APPAREL ORIGINATED IN THE U.S. IMPORTS COST U.S. COTTON FARMERS AN ESTIMATED \$1.25 BILLION IN 1984.

O TEXTILE TRADE LEGISLATION

-- UNDERSTAND COTTON COUNCIL IS ACTIVE MEMBER OF COALITION SEEKING AUGUST 6 OVERRIDE OF VETO OF THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT.

-- UNDERSTAND 70 SENATORS (MYSELF INCLUDED) AND 303 HOUSE MEMBERS SIGNED LETTERS URGING THE PRESIDENT TO NEGOTIATE A TOUGHER MULTIFIBER ARRANGEMENT (MFA), INCLUDING A FORMULA TIERING IMPORT INCREASES TO DOMESTIC DEMAND.

-3-

-- UNDERSTAND DEVELOPING, TEXTILE-EXPORTING COUNTRIES ARE USING OUTCOME OF MFA TALKS (DEADLINE IS JULY 31) AS LEVERAGE ON WHETHER TO JOIN NEW GATT ROUND -- TOP ADMINISTRATION PRIORITY.

-- IF THE CHOICE IS BETWEEN OVERRIDING THE PRESIDENT'S VETO AND LAUNCHING A NEW GATT ROUND, I WOULD PREFER NOT HAVING TO OVERRIDE THE VETO.

NATIONAL FERTILIZER DEVELOPMENT CENTER (TVA)

-- APPRECIATE UNIQUE ROLE PLAYED BY NFDC. 75% OF THE FERTILIZERS USED BY U.S. FARMERS ARE MADE WITH TECHNOLOGY DEVELOPED HERE.

-- NFDC'S MISSION IS COMPREHENSIVE: FROM CHEMICAL RESEARCH TO GREENHOUSE AND FIELD OBSERVATIONS TO INDUSTRY INTRODUCTION.

-- NFDC WORKS COOPERATIVELY WITH AG RESEARCHERS AND COMPANIES ON A NATIONWIDE BASIS. OVER 600 LICENSES FOR VARIOUS PROCESSES AND EQUIPMENT HAVE BEEN GRANTED TO COMPANIES AND PLANTS IN 40 STATES.

-4-

- IN KANSAS, 12 PLANTS ARE LICENSED TO USE NFDC PROCESSES.
NFDC RESEARCHERS HAVE WORKED WITH KSU SCIENTISTS ON
DEVELOPMENT OF A FLUID FERTILIZER APPLICATION SYSTEM.
- APPRECIATE EFFORTS BY TVA AND NFDC TO FIND PRIVATE SOURCES
FOR FUTURE FUNDING. FY-86 APPROPRIATION (AFTER G-R-H CUT)
WAS \$121 MILLION FOR TVA, OF WHICH \$32 MILLION WAS FOR NFDC.
THE PRESIDENT'S BUDGET PROPOSAL FOR FY-86 WAS \$58 MILLION FOR
TVA, INCLUDING \$20 MILLION FOR NFDC.

KEY FACTS ABOUT TVA'S NATIONAL FERTILIZER DEVELOPMENT CENTER (NFDC)

1. Fertilizer research, development, and nationwide introduction is our big job—about 80% of appropriated budget.
 - One of a kind institution. Key in U.S. Ag research; no one duplicates NFDC.
 - Comprehensive. Chemical research in laboratories. Greenhouse and field agronomic evaluations. Engineering development in experimental plants. Market studies. Industry introduction. Technical assistance with adoption.
 - Cooperative. Work closely with agricultural researchers in evaluating new products. Collaborate with scores of industry firms to promote use of new technology. Active in 30-40 States annually.
 - Extremely effective.
 - * Classic in technology commercialization
 - * Process improvements used in nearly 600 plants
 - * 75% of U.S. fertilizers made with TVA technology
 - * Key in nation's agricultural efficiency and food economy
 - Kansas connection.
 - * Have long had strong fertilizer program in Kansas.
 - * Dozen Kansas plants licensed to use TVA processes.
 - * We regularly work with such industry firms as Collingwood Grain, Hutchinson; Reid Grain, Kanorado; Farmland Industries, Kansas City; Johnson's Elevator, Mentor; Val-U-Hi, Fremont, Nebraska; Sterrett Chemical, Quinter; Mears Fertilizer, El Dorado; Kugler Oil Company, Ulysses; and The Reactor, Inc., Garden City.
 - * Recent cooperative work with Kansas State University was key in developing the concept of dual application of wheat fertilizers (anhydrous ammonia and a fluid N-P fertilizer). This is now practiced throughout much of the wheat belt.
 - * We conducted 2-day school at Salinas last year to show companies how to calibrate fertilizer spreaders.
 - * Helped western Kansas firm design portable fluid fertilizer plant based on TVA's energy-efficient process.
 - * 28 Kansas companies use TVA-developed microcomputer software.

-2-

2. Recent Trends

- Reflecting Grace Commission recommendations and Administration guidance, we are making concerted effort to obtain private funding.
 - * Should raise over \$700,000 this year. Working to develop larger long-term support for several major projects.
 - * Still need strong core of Federal support to maintain program integrity and continuity.
 - * Forming CEO-level industry advisory board to give us broad policy guidance. Regularly review our research with industry groups.
- Have always worked closely with Nation's land-grant universities in cooperative projects. Just recently, however, have formed consortium with Alabama's research universities to promote synergism and complementarity.
 - * State of Alabama has made available about \$250,000.
- Employment has been trimmed by one-fourth in last 3-4 years—to about 750; this is half the level of 15-20 years ago, reflecting greater concentration on research and less on production.

-3-

3. Two other major program areas:

A. Helping to make agriculture more productive and more profitable in Tennessee Valley region (Alabama, Tennessee, Kentucky, North Carolina, Mississippi, Georgia, Virginia).

- * Cooperative with State universities, other organizations.
- * Includes farm management, introducing new high-income crops, market development, soil and water conservation, help for agribusinesses.
- * Showing how many small farmers can survive. Some of our most effective work of this type has been in western North Carolina. In cooperation with many others, we helped introduce and establish major new cash crops there in recent years. Christmas trees, vine-ripened tomatoes and native ornamental shrubbery—all now are multimillion-dollar enterprises.
- * Valuable as national demonstrations.

B. Renewable energy research.

- * Strong focus on converting underused hardwoods to fuel alcohol (ethanol); going for technology that gets more gallons per ton of wood.
- * Good effort also on technology for converting nongrain farm crops and various waste residues to ethanol—and perhaps to other chemicals.
- * Manage Southeastern Regional Biomass Energy Program for Department of Energy. Very effective in promoting commercialization, stimulating university-private sector interaction, and leveraging technology investments by others.
- * Provide bioenergy technical assistance to Agency for International Development to help with Third World problems.

This renewable energy program has good potential for reducing the national need for imported petroleum, improving resource use, creating jobs, and even offering attractive alternative uses of marginal lands.

TALKING POINTS FOR DOLE
Muscle Shoals, AL

Upbeat as possible--

Drought - Had some rain
- Suffering most severe in 100 years
- Still way behind on yearly average rainfall

Main Crops - Cotton and Soybeans
in area

Market Loan for Cotton - get competitive in marketplace

- need some type of program for
Soybean, wheat, corn

Dairy - Program is temporary adjustment
- AL is deficit milk producing state
- Over 50% brought in

Cattle - 2nd largest agriculture interest in state
- #2 in dollars to Alabama
- ** Among top 5 states in low-calf operation

Poultry - #1 commodity in Alabama in dollars

Soybeans - #1 row crop - #3 money producer

Double cropping is a way an acre of land in Alabama can equal an
acre of production in the midwest--

Alabama is 75% timber

Conservation reserve will help produce a marketable crop in 15
to 20 years and cash flow for farmers today

Textile Imports

Tax Bill

BRIEF

TVA'S NATIONAL FERTILIZER DEVELOPMENT CENTER

The National Fertilizer Development Center (NFDC) at Muscle Shoals, Alabama, is operated by the Tennessee Valley Authority. It is the source of most of the Nation's new fertilizer technology. It also is a world center of innovation for efficiency in agricultural production.

The NFDC is one of the best examples that could be found of technology transfer. Its research is oriented to practical problems. And its out-reach efforts in cooperation with the industry, universities, and others make sure that promising developments are injected into the economy. An estimated three-fourths of the Nation's fertilizer is made with technology developed at Muscle Shoals.

In line with Administration guidance, NFDC is working to obtain private funding. Good progress is being made, but it will be necessary to keep a strong base of Federal support if this key national agricultural R&D program is to continue an effective leadership role.

Fertilizer research, development, and introduction account for about 80 percent of NFDC's budget. Fewer resources are devoted to two other program areas: (1) Agricultural improvement in the Tennessee Valley region, and (2) Research to develop more efficient technology for converting cellulosic materials—including trees, farm crops, and wastes— to fuel alcohol. Both fronts promise major national benefits.

TRADE ENHANCEMENT ACT OF 1985, S. 1860

33 Cosponsors

Introduced November 20, 1985

BRIEF OVERVIEW OF MAJOR PROVISIONS IN BILL

1. Section 301 Reform

Requires automatic initiation of Section 301 cases by USTR when another country's unfair trade practices burden, distort or restrict a substantial amount of United States exports.

When an unfair trade practice is identified, after a period of time for negotiation, the bill requires that retaliation take place. Other changes made to Section 301 include transferring the initiation authority from the President to USTR and a new definition of "burden" for purposes of determining whether an unfair trade practice has taken place.

2. Section 201 Reform

Amends the law to require that import relief be given to industries the ITC finds to have been injured.

The bill also requires that an injured industry prepare an adjustment plan that would, over time, result in their altering their methods of doing business or producing a product in order to become more competitive.

3. New Round Authority

Provides authority for President to enter a new round of GATT negotiations, and links to this authority a list of specific negotiating objectives.

4. Dollar/Exchange Rates

Requires President to work with G-5 countries to improve functioning of the international monetary system. In addition, creates a strategic exchange reserve to assist in moderating exchange rate fluctuations, and makes funds available to assist LDC debtor nations.

-2-

5. Generalized System of Preferences (GSP)

Requires the President to establish criteria for the graduation (within 2 years) from GSP of advanced developing countries, (i.e., Hong Kong, Korea, Taiwan).

6. Non-Market Economy Dumping

Streamlines the procedure for bringing anti-dumping cases against non-market economies.

7. Section 337 Protection (Intellectual Property Rights)

The bill expands protection for process patents and other intellectual property.

8. Export Promotion

The bill includes the President's proposal for the establishment of a war-chest and other steps to promote exports including making technical revisions and clarifications in the Foreign Corrupt Practices Act to help companies operating abroad. We incorporated many of these latter changes as a result of our discussions with the Hong Kong Chamber of Commerce.

The bill does not provide for industry-specific protection such as protection for textiles, shoes, etc., although each of the titles of the bill are likely to contain provisions which are particularly helpful to particular industries.

May 15, 1986

TRADE TALKING POINTS

o While good news on the trade front is slow in coming, exports of U.S. capital equipment and other goods are running about 4% over the pace at the end of 1985. If this trend continues, we should see significant improvement in the trade deficit before the end of this year.

o This positive shift is, in part, the result of past year's decline in the value of the dollar. The dollar has fallen almost 35% from its peak in February 1985 against the yen, and since last September's G-5 meeting it's fallen about 15% against a basket of major currencies.

o I hope this turnabout continues--but there's more to trade trends than exchange rates. Even with the good news, we must face facts: the United States does not have a clearly defined trade strategy or policies to carry it out.

o We Americans believe that trade is an exchange of goods and services -- a two-way street between businesses, states, and countries. However, many countries are only too happy to sell us their goods. But when it comes to buying ours, they say "No thanks."

o The truth is that most of us in Congress, as well as most businesses, don't want to erect protectionist barriers to prevent foreign goods from entering the United States. What we want is access -- the opportunity to sell American products in overseas markets.

o In the past, the United States blinked at other countries' trade barriers even though our markets are among the most open in the world. In view of the current U.S. political and economic climate we can no longer afford this luxury.

- 2 -

CONGRESS AND TRADE POLICY

o I have never seen stronger Congressional sentiment for acting on the trade front. My colleagues, including strong advocates of free trade, are fed up with what they believe to be basic unfairness.

o Trade already is and will continue to be a major political issue in the 1986 and 1988 elections. Many in Congress are already moving to gain early political advantage. Hundreds of trade bills have been introduced to date. The stakes are high -- maybe control of the Senate in 1986.

o Although there is a diversity of opinion among members of Congress on how best to address the trade issue, there seems to be a consensus that Congress must reassert its broad constitutional authority over trade policy. Under Article I of the Constitution, the Congress is expressly vested with the power to regulate commerce with foreign nations and to set tariffs. Over the years, Congress has ceded to the Executive Branch the primary role not only in implementing these policies but also in setting our overall trade policies.

o Last November a bipartisan group of my Senate colleagues joined with me in introducing a major trade initiative which attempts to reestablish our involvement.

Specifically, this bipartisan initiative addresses the following objectives:

To insure systematic enforcement of existing trade laws against foreign unfair trade practices;

To expand trade through market liberalization;

To promote meaningful adjustment of import-impacted industries to new competitive conditions; and

To remedy misalignment of the dollar, developing country debt, and disincentives to U.S. exports.

In addition to this effort there are numerous sector-specific bills which the Congress may consider. Notable among them, the so-called textile bill, which passed overwhelmingly in both the House and Senate and was vetoed by the President.

CANADIAN FREE TRADE AGREEMENT

o One more recent example of congressional determination to become a more active partner on trade is the debate over the Administration's proposal to begin negotiations on a free trade zone agreement with Canada.

- 3 -

o The administration got its way. On a tie vote, the Finance Committee defeated a motion to put the negotiations on a slow track--in effect gutting the initiative. But the Administration came close to losing this one. There were a number of senators unhappy about specific trade issues with Canada, such as timber. But there were others, Republicans included, who are dissatisfied with the administration's failure to be more aggressive overall on the trade front and to take Congress for granted.

o The trade issue is not going to go away. Members of Congress recognize that America's trade policy is in a shambles. And Congress seems prepared to pick up the pieces -- if you can believe all the rhetoric.

AGRICULTURE AND TRADE

o Agricultural trade is vital to the economic health of rural America and the Nation. 20 million jobs and 20% of our economic activity can be tied to the farm sector. Low farm prices are one of the primary reasons for the low inflation being enjoyed by other Americans as well as foreigners.

o I am especially sensitive to the importance of world markets to U.S. farmers. U.S. agricultural sales have fallen by over one-third in four years: from \$43.8 billion in 1981 to \$28 billion in 1985.

o Problems facing ag exports have included:

--reduced buying power and increased food production in developing countries. These trends are tied to long-term economic trends, and will not change soon.

--the relatively high value of the dollar in 1981-85. With the 30% decline in the dollar since a year ago, U.S. sales should improve somewhat. However, many of our competitors either trade in dollars or tie their currencies to shifts in the dollar's value to prevent losing market share.

--U.S. price supports have been above world market levels. This has been addressed through the lower loan rates in the 1985 farm bill. However, these 15-25% reductions will not be effective until the 1986 harvest begins (June for wheat; September for feedgrains and soybeans). Current "old crop" prices are significantly higher than "new crop" prices later this year.

--government-assisted competition. The EEC's use of export subsidies is only the most blatant example of government intervention in farm exports. Others have used (and are using) various production, processing, and ocean freight subsidies or allow domestic hyperinflation to underprice their exports.

- 4 -

--lack of a coherent U.S. trade policy. Food has been used as an economic and political weapon by Administrations of both parties, either by cutting exports off in embargoes or by discriminating in the application of subsidies. U.S. refusal to offer Export Enhancement Program (EEP) bonus commodities across-the-board has cost sales to friends (Korea, Brazil) as well as global adversaries (Soviet Union, PRC).

o The Reagan Administration has launched a more serious effort to counter unfair trade practices. Lyng and Yeutter met their EEC counterparts (Andreissen and de Clerq) in Paris last week to make clear that the U.S. will not accept the new EEC restrictions on farm trade with Spain and Portugal. If restrictions are imposed, the U.S. will offset the value of lost sales of wheat, feed grains and soybean products through parallel restrictions on EEC agricultural exports.

o We do not want to get into a farm trade war. We would like to normalize ag trade by eliminating subsidies now allowed under GATT. The EEC has refused to put ag subsidies on the agenda for the new GATT round ever since the last Ministerial meeting broke down in November 1982. We cannot start new negotiations without ensuring that this issue will be addressed. The President is expected to address this question at the Tokyo Summit next week.

o I have urged the Administration to consider setting annual targets for the volume or value of farm exports in 1986, 1987, and 1988. This would introduce a needed element of accountability into evaluating our export performance, particularly as it relates to the results of our domestic farm programs. It would also be recognition that the U.S. must accept a more active role in competing for agricultural exports as long as other governments continue to actively intervene in international trade.

o When a farmer is threatened by bankruptcy or a processing plant is in danger of closing down, the men and women whose lives are dependent on those ventures are not interested in the comparative advantages of free trade or in how the EEC subsidizes its exports -- they want the Government to protect their jobs.

CONCLUSION

o The clock is ticking. Ticking for our trading partners throughout the world, who need to take some decisive action soon.

o The clock is also ticking here at home. We must do something quickly, on two fronts. We have to get our deficits, and our dollar, under control. And we must set up an effective mechanism to deal with trade issues on a comprehensive basis. If we ignore the problem any longer, we put at risk our own prosperity and our role as the engine of global economic progress.

HIGHLIGHTS OF HOUSE TRADE BILL

Here is a summary of key provisions of the trade bill passed by the House.

The President would be required:

- o To take actions against foreign trade violations, removing his current discretionary authority; the bill would set specific time limits for investigations and retaliatory actions.
- o To retaliate in an amount equivalent in value to offset completely the effects of the foreign trade action.
- o To act against foreign governments, such as Japan, that practice "exports targeting" by subsidizing or favoring certain export industries.
- o To retaliate against countries that engage in "unreasonable" trade practices, including the denial of "internationally recognized" workers rights. The bill also would:
- o Require mandatory negotiations with any major trading partner that has "excessive trade surpluses" with the United States. The provision, aimed at West Germany, Japan and Taiwan, says those nations must reduce their trade surpluses by 10 percent a year or face the consequences of quotas or tariffs.
- o In order to help domestic industries hurt by foreign competition, create new emergency procedures for import relief and transfer the decision-making authority from the President to the U.S. Trade Representative. It would also permit temporary emergency, import relief for perishable products and would automatically grant Trade Adjustment Assistance to workers and companies once injury has been documented by the International Trade Commission.
- o Repeal the President's authority to decide whether to grant Trade Adjustment Assistance.
- o Broaden the definition of what constitutes injury to U.S. industries by countries that "dump" their products at below-market prices. For the first time, it would allow the United States to impose duties against "diversionary dumping" -- when goods or components are dumped in a third country and then incorporated into a product exported to the United States.

-2-

- o Permit U.S. firms and workers to file private suits to recover damages related to such imports.
- o Authorize punitive action against foreign governments that subsidize the price of natural resources, such as Canadian timber and Mexican natural gas.
- o Strengthen existing laws to protect U.S. trademarks, patents and copyrights abroad by eliminating a requirement U.S. companies prove economic injury.
- o Give the President authority to conduct a new round of multilateral trade negotiations, as well as providing expanded trade preferences to debt-burdened Latin American countries.