

CAP. Holiday Inn
Clark Rm.
Ex. Bd mtg.

April 8, 1987

TO: SENATOR DOLE
FROM: MARK SCANLAN
SUBJECT: LAND O' LAKES

You will be introduced by Ralph Hofstad, CEO and President of Land of Lakes. He met with you Feb. 22 at a brunch in Minneapolis. You will be meeting with their board of directors (about 50 people). They would like 10-15 minutes with Q's & A's.

Their board would like to get as many pictures as possible of you with their board members to send to home-town newspapers.

Land O' Lakes represents about 10 states including: Iowa, North Dakota, South Dakota, Wisconsin, and Minnesota. Senator Boschwitz will also address the group.

ISSUES:

FARM BILL/EXPORT PROGRAMS - They like the 1985 farm bill and think it is moving in the right direction. They favor a marketing loan for wheat and feedgrains as well as an aggressive use of EEP.

CASEINE - They support limiting imports of caseine. Jeffords has a bill to increase the 5 billion pound level of CCC purchases by the equivalent of displaced domestic milk resulting from caseine imports. Congressman Rose has a bill to set a caseine quota. (The Administration has opposed restricting caseine imports on the basis that past studies have not shown material damage to the domestic milk program and the resulting retaliation from GATT nations).

NOTE: If 1987 CCC purchases are estimated to be above 5 billion pounds, USDA will cut the milk price 50 cents on Jan. 1, 1988, from \$11.10 to \$10.60. They feel more dairy exports could reduce the CCC purchase level under the 5 billion pound level.

DAIRY EXPORT INCENTIVE PROGRAM - They feel current regulations are allowing only residual exports of dairy products. They would like more flexibility in formulating milk-based products attractive to foreign countries.

MELCHER TRADE BILL - They support S. 659, Melcher's "Ag Aid and Trade Missions Act" which would send trade teams to meet with foreign countries to assess import needs. Bill is now non-controversial.

GENERAL FARM - They would be interested in advancing feed grain payments (S. 324, Dole/Grassley) prospects of "zero/92", and the status of Budget committee cuts to agriculture.

April 8, 1987

LAND O' LAKES (AGRICULTURE)

FARM BILL COSTS

- O THE 1985 FARM BILL IS MOVING IN THE RIGHT DIRECTION -- TOWARDS A GREATER MARKET ORIENTATION -- BUT PROGRESS HAS BEEN SLOW. LOW FARM PRICES HAVE RESULTED IN HIGH PROGRAM COSTS (\$25.6 BILLION IN FY 86; ESTIMATED \$25.2 BILLION IN FY 87).

- O CONGRESSMEN FROM URBAN STATES ARE BEGINNING TO COMPLAIN THAT FARM PROGRAMS ARE TOO EXPENSIVE.

-2-

- 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.

-3-

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.

OPENING THE FARM BILL

O THE ADMINISTRATION HAS PROPOSED A 10% CUT IN
TARGET PRICES EACH YEAR FOR THREE YEARS
WHICH WOULD SAVE OVER \$20 BILLION BETWEEN FY
1988 - 1992.

-4-

O WE MAY WANT TO DO SOME FINETUNING. WE DID
EXTEND THE DEADLINE FOR THE REPORT OF THE
NATIONAL COMMISSION ON DAIRY POLICY FOR ONE
YEAR AND PHASED IN COMPLIANCE WITH
CONSERVATION PLANS FOR THOSE PRODUCERS WHO
HAVE ALFALFA IN ROTATION GIVING PRODUCERS A
YEAR TO MEET REQUIREMENTS.

-5-

- O WE WILL ALSO TRY TO BRING UP A MINOR
DISASTER BILL FOR PRODUCERS WHO HAVE BEEN
PREVENTED FROM PLANTING -- BUT EVEN THAT HAS
ATTRACTED ABOUT TWENTY AMENDMENTS.

- O SENATOR GRASSLEY AND I HAVE AN AMENDMENT WE
WOULD LIKE TO OFFER WHICH WOULD ADVANCE THE
FINAL PORTION OF THE 1986 FEED GRAIN
DEFICIENCY PAYMENT TO THIS SPRING.

-6-

O SO IT IS DOUBTFUL CONGRESS WILL PRODUCE A
MAJOR REWRITE OF THE 1985 FARM BILL. NEW
LEGISLATION CREATES MORE PROBLEMS AND
CONFUSION THAN IT RESOLVES, AND NEVER
SATISFIES CRITICS. THE LAST THING WE NEED
IS ANOTHER DEBATE OVER FARM BILL
PHILOSOPHY.

LAND O' LAKES (AGRICULTURE)

BUDGET COMMITTEE TARGETS

- O I UNDERSTAND THE SENATE BUDGET COMMITTEE HAS A TARGET OF \$1.6 BILLION IN REDUCTIONS FOR FY-1988 IN AGRICULTURE (FUNCTION 350). THERE ARE NO DETAILS AS TO HOW THEY WOULD ACHEIVE THE CUTS. THE HOUSE BUDGET COMMITTEE HAS A TARGET FIGURE OF \$1.3 BILLION.

EXPORT SITUATION

- O ONE AREA WHERE I HAVE ENCOURAGED THE ADMINISTRATION TO BE MORE AGGRESSIVE IS IN PURSUING FARM EXPORTS, WHICH HAVE DECLINED TWENTY-NINE PERCENT IN VOLUME, FROM 162 MILLION METRIC TONS TO 114 MILLION TONS, AND FORTY-ONE PERCENT IN VALUE, FROM \$44 BILLION TO \$26 BILLION, SINCE REACHING THEIR PEAK LEVELS IN 1981.

-9-

O THIS HAS REDUCED AGRICULTURE'S POSITIVE NET CONTRIBUTION TO THE U.S. TRADE BALANCE FROM \$26.6 BILLION TO \$5.4 BILLION. EVERY ONE BILLION DOLLARS IN FARM EXPORTS GENERATES 35,000 JOBS AND CREATES ANOTHER \$1.4 BILLION OF ECONOMIC ACTIVITY IN THE UNITED STATES. I WOULD STRESS THAT THIS LOSS IN EXPORT VOLUME AND VALUE REPRESENTS A SIGNIFICANT ECONOMIC LOSS TO FARMERS AND OTHERS IN RURAL AMERICA.

-10-

EXPORT ENHANCEMENT/MARKETING LOAN

O SO I'VE ENCOURAGED THE ADMINISTRATION TO
ADMINISTER THE EXPORT ENHANCEMENT PROGRAM
ACROSS-THE-BOARD RATHER THAN ON A
SELECTIVE, COUNTRY-BY-COUNTRY BASIS WHICH
HAS RESULTED IN INCREASED SALES TO THE
TARGETED COUNTRIES BUT REDUCED PURCHASES BY
COUNTRIES WHO ARE NOT ELIGIBLE, SUCH AS THE
SOVIET UNION.

-11-

O AS AN ALTERNATIVE TO AN ACROSS-THE-BOARD
EXPORT ENHANCEMENT PROGRAM, I HAVE SUGGESTED
THE ADMINISTRATION USE THEIR EXISTING
AUTHORITIES TO IMPLEMENT A MARKETING LOAN,
WHICH WOULD MAKE US IMMEDIATELY
COMPETITIVE.

O THE BOTTOM LINE IS THAT IF THE UNITED STATES
IS GOING TO COMPETE IN A BUYERS MARKET,
WHICH IS WHAT WE HAVE FOR MOST
PRICE-SUPPORTED COMMODITIES TODAY, WE WILL

-12-

HAVE TO OFFER OUR CUSTOMERS COMPETITIVE
PRICES, A HIGH QUALITY PRODUCT AND A
RELIABLE SUPPLY.

LAND O' LAKES (AGRICULTURE)

DAIRY EXPORT INCENTIVE PROGRAM

O I AM AWARE OF THE CONCERN OF LAND O' LAKES
THAT USDA'S REGULATIONS ON THE DAIRY EXPORT
INCENTIVE PROGRAM ARE TOO RESTRICTIVE AND IS
RESULTING IN VERY MINIMAL SALES. THIS IS A

-13-

GOOD EXAMPLE OF HOW WE REGULATE OURSELVES
OUT OF GOOD SALES OPPORTUNITIES.

- O IF WE COULD EXPORT A BILLION POUNDS WE COULD
AVOID THE 50 CENT PRICE-SUPPORT SCHEDULED TO
TAKE EFFECT JAN. 1, 1988 IF CCC PURCHASES
EXCEED 5 BILLION POUNDS.

FARM CREDIT

- O FARM CREDIT SYSTEM LOST \$1.9 BILLION IN 1986
AFTER \$2.7 BILLION IN 1985. SENATOR BOREN,

-14-

WHO CHAIRS THE SENATE AGRICULTURE
COMMITTEE'S CREDIT SUBCOMMITTEE, HAS HELD TWO
HEARINGS ON THE ISSUE.

O WE WILL NEED TO ACT SOMETIME THIS YEAR, BUT
I DO NOT EXPECT LEGISLATION UNTIL SOMETIME
IN MAY. DETAILS OF ANY RESTRUCTURING
EFFORTS ARE STILL IN THE MAKING.

O I BELEIVE MOST FARMERS WANT THE FOLLOWING:

-15-

MAKE THE SYSTEM COMPETITIVE, SO THAT ALL
BORROWERS, NOT JUST THE BEST BORROWERS,
CAN HAVE LOWER INTEREST RATES.

ENSURE PROTECTION OF BORROWER STOCK.

PUT THE SYSTEM ON A SOLID LONG-TERM BASIS
RATHER THAN SIMPLY HAVING A DIRECT LINE
OF CREDIT FROM THE TREASURY.

-16-

IN EXCHANGE, THE SYSTEM WILL NEED TO MAKE SOME STRUCTURAL REFORMS. IT IS NOT NOW CLEAR WHAT THE SPECIFIC NATURE OF THESE REFORMS WILL BE.

WE WILL ALSO WANT TO LOOK AT MAINTAINING THE COOPERATIVE NATURE OF THE SYSTEM AND ENSURING LOCAL CONTROL BY BORROWERS. FARMERS ARE BETTER ABLE TO DETERMINE THEIR NEEDS THAN SOMEONE IN WASHINGTON D.C. OR KANSAS CITY OR DENVER.

-17-

ONE QUESTION IS WHETHER WE CAN PROVIDE
SOME TYPE OF UP-FRONT ASSISTANCE TO
TROUBLED BORROWERS. SUCH ASSISTANCE
WOULD HAVE A COST AND WOULD PROBABLY BE
TARGETED TO MARGINAL BORROWERS. THIS MAY
NOT MAKE OTHER BORROWERS HAPPY.

LAND O' LAKES (AGRICULTURE)

TRADE

- O I WOULD EXPECT THE SENATE TO BRING UP S.
659, SENATOR MELCHER'S "AG AID AND TRADE

-18-

MISSIONS ACT". THE BILL WILL SEND TRADE
TEAMS TO MEET WITH FOREIGN COUNTRIES TO
DETERMINE THEIR IMPORT NEEDS. TEAMS CONSIST
OF INDIVIDUALS FROM USDA, STATE,
COOPERATIVES AND PVO'S.

CASEINE

O I AM AWARE OF YOUR CONCERN WITH CASEINE
IMPORTS ADVERSELY AFFECTING THE DOMESTIC
DAIRY PROGRAM AND THAT CONGRESSMAN JEFFORDS'
AMENDMENT RECENTLY PASSED THE HOUSE. HIS

-19-

AMENDMENT WOULD DECREASE THE ESTIMATED LEVEL OF CCC PURCHASES BY MILK EQUIVALENT POUNDAGE OF CASEINE IMPORTED IN EXCESS OF AVERAGE ANNUAL IMPORTS FROM 1981 - 1985.

- O IT IS LIKELY THE U.S. WOULD HAVE TO SHOW MATERIAL INTERFERENCE WITH OUR DOMESTIC PROGRAM IF WE WERE TO AVOID A CHALLENGE FROM OUR GATT TRADING PARTNERS OR INTERNATIONAL RETALIATION TO OTHER AG PRODUCTS.