

**EXECUTIVE SECRETARIAT**  
**Routing Slip**

TO:		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
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6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/EEO				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
18	AO/DCI				
19	C/IPD/OIS				
20	W/O/ECON		✓		
21					
22					
		SUSPENSE	_____		
			Date		

Remarks: *Copy to DD/EC ✓*

Executive Secretary  
*9/16/82*  
 Date

THE WHITE HOUSE  
WASHINGTON

DDI- 7498/82

**CABINET AFFAIRS STAFFING MEMORANDUM**

DATE: 9-15-82 NUMBER: 077469CA DUE BY: \_\_\_\_\_

SUBJECT: Cabinet Council on Economic Affairs - Thursday, September 16, 1982

8:45 a.m. - Roosevelt Room

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Clark	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman ( <i>For WH Staffing</i> )	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Kudlow	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Wheeler	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input type="checkbox"/>
CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CEQ	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: The Cabinet Council on Economic Affairs will meet on Thursday, September 16, at 8:45 a.m. in the Roosevelt Room.

The agenda and paper on the Economic Impact of U.S. Agricultural Exports in Value Added Products are attached. The paper on the Flat Rate Tax is forthcoming.

RETURN TO:  Craig L. Fuller  
Assistant to the President  
for Cabinet Affairs  
456-7873

Becky Norton Dunlop  
Director, Office of  
Cabinet Affairs

THE WHITE HOUSE

WASHINGTON

September 14, 1982

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER *RBP*

SUBJECT: Agenda and Paper for the September 16 Meeting

The agenda and paper for the September 16 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The first agenda item is a review of the economic impact of U.S. agriculture exports in value added products. Secretary of Agriculture Block has requested the opportunity to brief the Council on this issue and has prepared a short paper and series of charts and tables as background material which is attached.

The second agenda item is the flat rate tax. The Senate Finance Committee is scheduled to hold three days of hearings later this month on fundamental tax reform and on the large number of flat tax and other proposals that have been introduced in the Congress. The Department of the Treasury is scheduled to testify on September 27. This agenda item will focus on the position that the Administration should take on this issue. The Council is also scheduled to continue discussion of this question at its Tuesday, September 21 meeting. No paper will be distributed on this agenda item in advance of the Thursday, September 16 meeting.

Attachments

THE WHITE HOUSE

WASHINGTON

THE CABINET COUNCIL ON ECONOMIC AFFAIRS

September 16, 1982

8:45 a.m.

Roosevelt Room

AGENDA

1. Economic Impact of U.S. Agriculture Exports in Value Added Products (CM#293)
2. Flat Rate Tax (CM#294)



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

September 14, 1982

MEMORANDUM FOR CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: John R. Block  
Secretary of Agriculture

A handwritten signature in dark ink, appearing to read "J.R. Block", written over the printed name of the Secretary of Agriculture.

SUBJECT: High Value Agricultural Exports

Attached is the background material for the discussion on high value agricultural exports scheduled for the September 16, CCEA meeting.

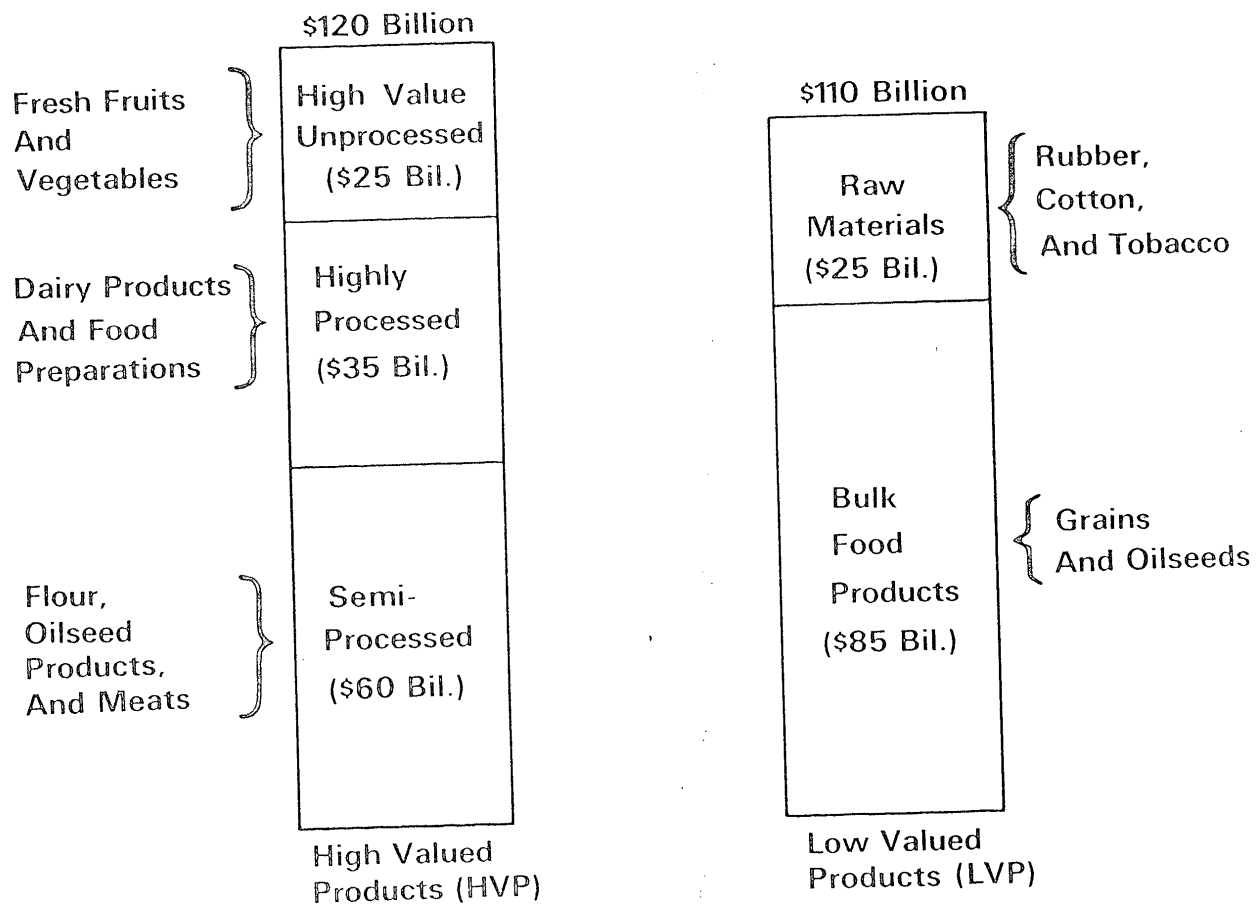
Attachment

TRADE IN HIGH VALUE FARM PRODUCTS  
AN OPPORTUNITY FOR THE 80's

1. A number of developments over the late 1960's and the 1970's (population and income growth) led to the development of two world markets for farm products--the traditional bulk market for low value, unprocessed products (LVP) and a second market for high value, generally processed products (HVP). By 1980, the second market for processed products grew to be larger than the bulk market that traditionally dominated agricultural trade.
2. The two markets are distinctly different and the major characteristics of the markets--sources of growth, growth prospects, pay-off on sales, and benefits to the economy outside the farm sector--suggest the HVP market has a higher pay-off for exporters.
3. U.S. performance in the HVP market in the 1970's was good, but not as strong as the U.S.'s comparative advantage in the production of inputs and cost efficient processing sector would suggest. The end result of the outstanding performance of the U.S. in the LVP market and weaker performance in the HVP market has been strong growth in our volume share of world trade but slippage in our value share; interannual fluctuations in U.S. exports also appear to have increased.
4. The U.S.'s performance in the HVP export market relates to policy forces at play here in the U.S. but more importantly to the strong push by many of the other developed HVP exporters to maximize their share of the market through the use of export subsidies. The large-scale intervention of the EC in the market through \$8 billion in export subsidies makes the HVP market one of the most political in the world.
5. Improving the U.S.'s performance in the HVP half of the market will require a substantial investment of time and money centered on a more aggressive HVP marketing stance. This more aggressive marketing stance will have to be reinforced by considerable trade policy pressure to prevent the other HVP exports--particularly the EC--from offsetting any improvement in the U.S.'s competitive position. The pay-off on any investment in more aggressive HVP marketing is likely to be high enough in the 1980's in terms of foreign exchange earnings, employment, and GNP to warrant the U.S. move as soon as a comprehensive program can be mapped out and funding allocated.

# EMERGENCE OF A SECOND WORLD MARKET FOR FARM PRODUCTS

(1980 DATA)



## CHARACTERISTICS OF HVP AND LVP MARKETS

### LVP

- INCOME-UNRESPONSIVE  
(INELASTIC)
- PRODUCT ONLY
- VOLUMN GROWTH
- FARMERS BENEFIT

### HVP

- INCOME-RESPONSIVE  
(ELASTIC)
- PRODUCT AND SERVICE
- UNIT PRICE GROWTH
- FARMERS AND PROCESSORS BENEFIT



## INCOME ELASTICITIES

(IMPORTANCE OF AFFLUENCE AS DEMAND DRIVER)

	<u>HVP</u>		<u>LVP</u>
MEATS	.35 TO .75	WHEAT	-.20 TO .25
CHEESE	.40 TO .70	RICE	-.20 TO .35
CEREAL PREPARATIONS	.50 TO 2.00	COARSE GRAINS	-.15 TO .15
FRESH FRUITS & VEGS.	.45 TO .65	COTTON	-.10 TO .20
PREPARED FRUIT & VEGS.	.60 TO 1.20	TOBACCO	-.10 TO .70
VEGETABLE OILS	.20 TO .60	JUTE	-.10 TO .20

THE SERVICE COMPONENT:  
(GROWTH IN HVP AND LVP UNIT VALUES)

	1970 \$/TON	1980 \$/TON	1980/1970 GROWTH RATE %
CORN	70	140	7.5
WHEAT	75	175	9.0
OILMEAL	85	215	9.5
FLOUR	90	285	12.0
VEGETABLE OIL	290	670	9.0
REFINED SUGAR	120	475	14.5
WINE	260	975	14.0
POULTRY	670	1,470	8.5
BUTTER	730	2,465	14.0
BEEF	910	2,590	11.0
CHEESE	935	2,905	12.0

## SOURCES OF GROWTH IN THE 1970'S

<u>HVP</u>		<u>LVP</u>	
STRONGEST GAINS IN UNIT PRICES		STRONGEST GAINS IN TRADE VOLUME	
EG... MEAT	11% PRICE GAIN	EG... GRAIN	7% VOLUME GAIN
	<u>6%</u> VOLUME GAIN		<u>7.5%</u> PRICE GAIN
	17% TOTAL GAIN		15% TOTAL VALUE GAIN

NON-FARM BENEFITS OF HVP EXPORTS  
(1980 DATA)

	<u>EXPORT RETURNS</u>	<u>FARMER RETURNS</u>	<u>PROCESSOR RETURNS</u>
CEREALS	\$ 185/TON	\$148	\$37 (20%)
MEAT	\$1470/TON	\$880	\$590 (40%)
CHEESE	\$2900/TON	\$600	\$2300 (80%)

Table 1-1

## U.S. Agricultural Export Performance Indicators

	1970	1980
U.S. Share of the World Agricultural Market		
by volume	25%	39%
by value	20%	18%
Agricultural Export Unit Values		
World Average	\$210	\$675
U.S. Average	\$170	\$265
Interannual Variability <u>1/</u>		
World Trade Volume	3%	4%
World Trade Value	5%	8%
U.S. Trade Volume	8%	9%
U.S. Trade Value	9%	14%

1/ Measured as the standard error of the regression taken from time series regression analyses of data for the 1960's and 1970's.

## HOW HVP EXPORTERS EXPANDED TRADE IN THE 1970'S

<u>PRODUCT CONCENTRATION</u>	<u>TECHNIQUE</u>
<u>U. S.:</u> SEMI- PROCESSED (54%)	<u>HOW:</u> LIMITED HVP PROMOTION EMPHASIZING SEMI-PROCESSED
<u>BRAZIL:</u> SEMI- PROCESSED (90%)	<u>HOW:</u> AGGRESSIVE PROMOTION EMPHASIZING SEMI-PROCESSED THROUGH TAXES AND SUBSIDIES
<u>EC:</u> HIGHLY PROCESSED (60%)	<u>HOW:</u> AGGRESSIVE MARKETING WITH PRODUCER AND EXPORT SUBSIDIES AS WELL AS EXPORT PROMOTION

Table 1--Total EC Agricultural Exports and Export Refunds, 1980 <sup>1/</sup>

Commodity	SITC code #	Agricultural exports		Export refunds 2/	Refunds as % of export sales to Non-EC countries
		Total	To Non-EC countries		
		\$ Mil.		Percent	
Grains and preparations	04	10,054.0	4,545.1	1,697.4	37.3
Milk and milk products	02	9,977.8	4,065.7	3,823.1	95.4
Agricultural oil and fats	4	2,696.0	1,008.6	5.2	5.1
Sugar and preparations	06	3,635.1	2,606.2	398.5	15.3
Beef and veal	0111	4,458.8	901.1	996.2	110.6
Mutton and lamb	0112	299.4	17.4	--	--
Pork	0113	2,382.1	232.6	127.5	54.8
Eggs and poultry meat	025	1,690.5	549.1	119.0	21.7
Fruits and vegetables	05	7,837.0	1,581.0	57.5	36.4
Wine	1121	3,138.7	1,279.1	36.8	28.8
Tobacco, unmgf.	1210	207.7	64.4	6.3	9.8
Fish and preparations	03	2,514.5	720.9	15.9	2.2
Processed agr. products not specified above <sup>3/</sup>	--	15,278.6	6,080.9	308.0	5.1
Other (residual)	--	10,217.3	2,777.9	--	--
Total	--	74,387.5	26,433.0	7,591.4	28.7

<sup>1/</sup> 1980 is the most recent year for which detailed information on export subsidies is available.

<sup>2/</sup> Excludes small payments on trade between member countries.

<sup>3/</sup> Includes (07) coffee, tea, cocoa, spices; (08) animal feed; (09) misc. food preparations; (21) hides and skins; (22) crude animal and vegetable materials; and (26) textile fibers.

Table 2--Relationships Between Prices and Subsidies For Commodities Exported from the EC (1981, unless otherwise specified)

Commodity	Exporter, importer	Units	EC market price a/	Export refund	Refund as percent age of wholesale price
					-----Percent-----
Poultry (70% Broiler)	: EC Average, : Middle East <u>b/</u>	¢/lb.	55.6	5.8	10
	: France, : Saudi Arabia	¢/lb.	58.8	7.6	13
Nonfat dry milk (5-27%)	: Netherlands, : Chile <u>c/</u>	\$/MT	1,589 <u>d/</u>	859	54
	: Netherlands, : Mexico <u>c/</u>	\$/MT	3,578	974	27
Butter (85% fat)	: Denmark : Iran & U.S.	\$/lb.	1.10	.27	24
	: Denmark, : Japan <u>e/</u>	\$/MT	2,232	306	14
Pigmeat	: W. Germany, : E. Europe <u>f/</u>	\$/MT	2,222	1,852	83
	: France, : Egypt <u>g/</u>	\$/MT	226	66	29
Bread wheat	: France, : Egypt	\$/MT	738 <u>h/</u>	77.25 <u>i/</u>	11
	: France <u>j/</u> : Poland	\$/MT	193	39.75	21
Wheat flour	: France : United States	<u>m/</u>	2.58	1.17	44 <u>n/</u>
	: Germany	\$/hl.	79.86	6.16	8

Footnotes on following page.



EXAMPLE:  
POULTRY EXPORTS TO SAUDI ARABIA  
(1980 DATA)

EC POULTRY

U. S. POULTRY

EC PRODUCTION COST 72.4 CENTS

EC EXPORT SUBSIDY 12.4 CENTS

EC PRICE 60.0 CENTS

U. S. PRICE 62.0 CENTS

EC SALES TO SAUDI ARABIA:  
90,000 TONS

U. S. SALES TO SAUDI ARABIA:  
12,000 TONS

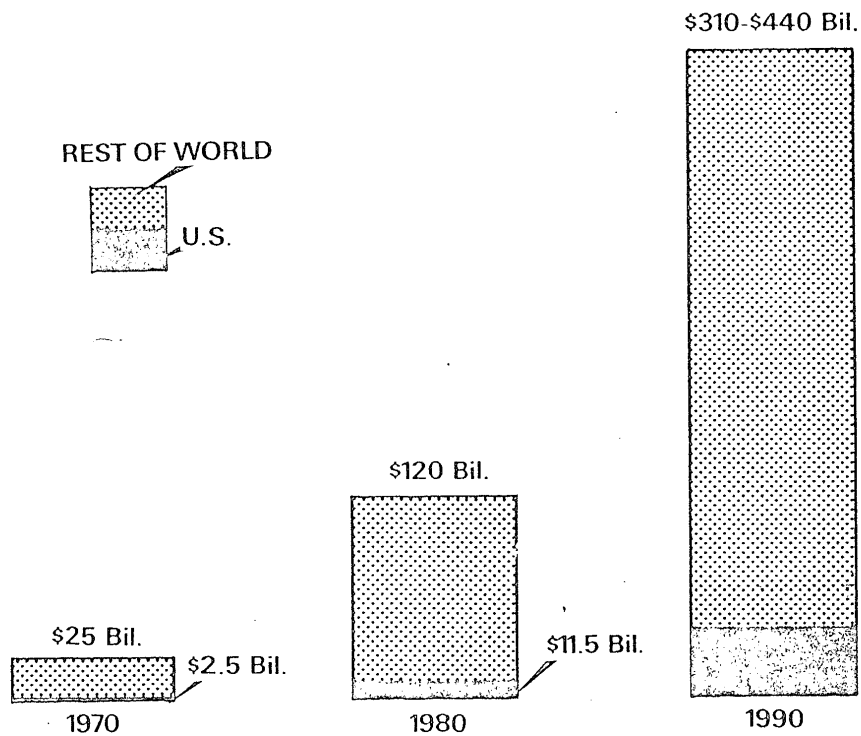
## U. S. HVP EXPORT EXPANSION STRATEGIES

ADOPTION OF AN EC HVP  
PROCESSING AND EXPORT  
SUBSIDY PROGRAM AND  
TIGHTER RESTRICTIONS  
ON HVP IMPORTS INTO  
THE U. S.

MORE AGGRESSIVE HP MARKETING BASED ON  
REFOCUSED/EXPANDED TRADE PROGRAMS  
(PL 480, CCC EXPORT CREDIT, AND MARKET  
DEVELOPMENT) AND INCREASED TRADE POLICY  
PRESSURE TO MINIMIZE SUBSIDIZED  
COMPETITION FROM ABROAD

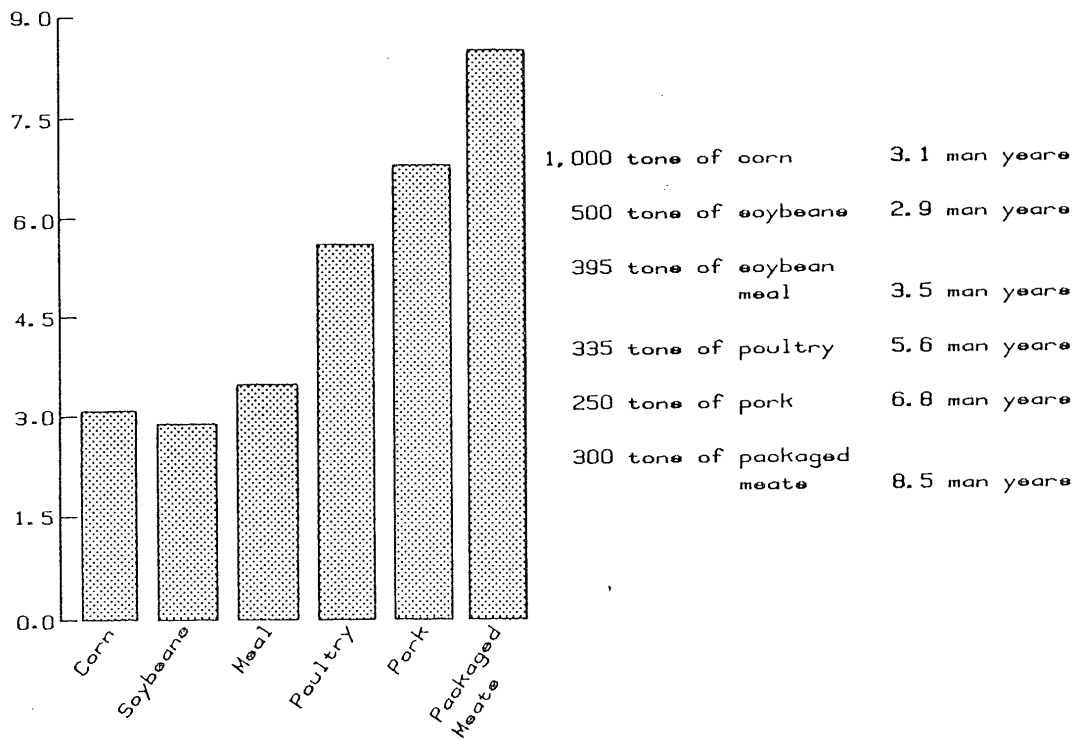
# HVP PROSPECTS FOR THE 1980'S

(Slower Growth But Still The Leading Trade Sector)



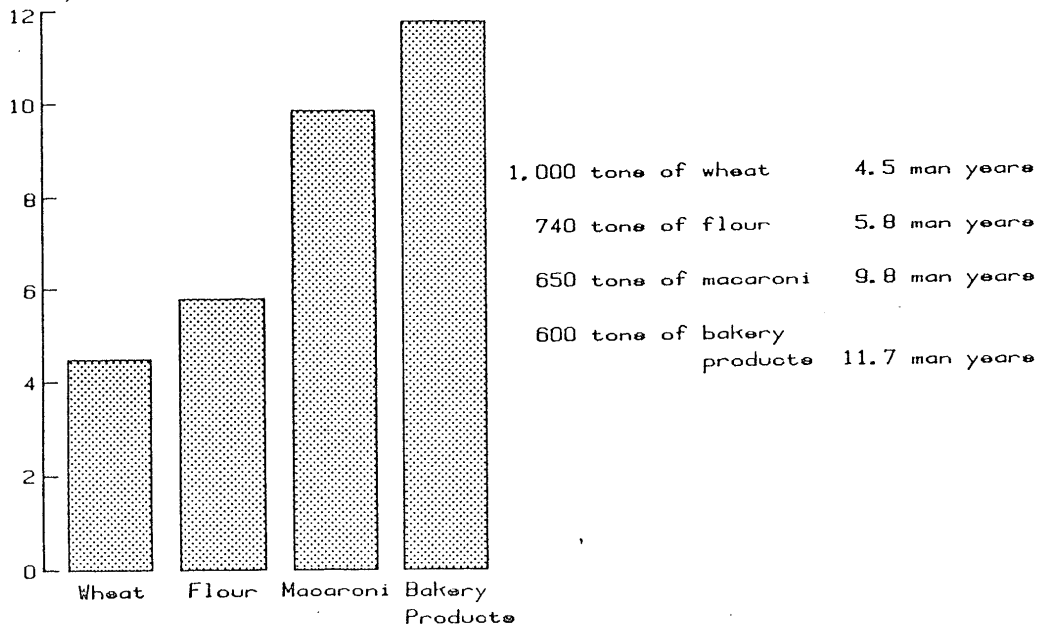
### LABOR REQUIRED TO EXPORT SELECTED FARM PRODUCTS (1980 DATA)

Employment Required to Export 1,000 tons of Feedstuffs as:  
Man years of labor



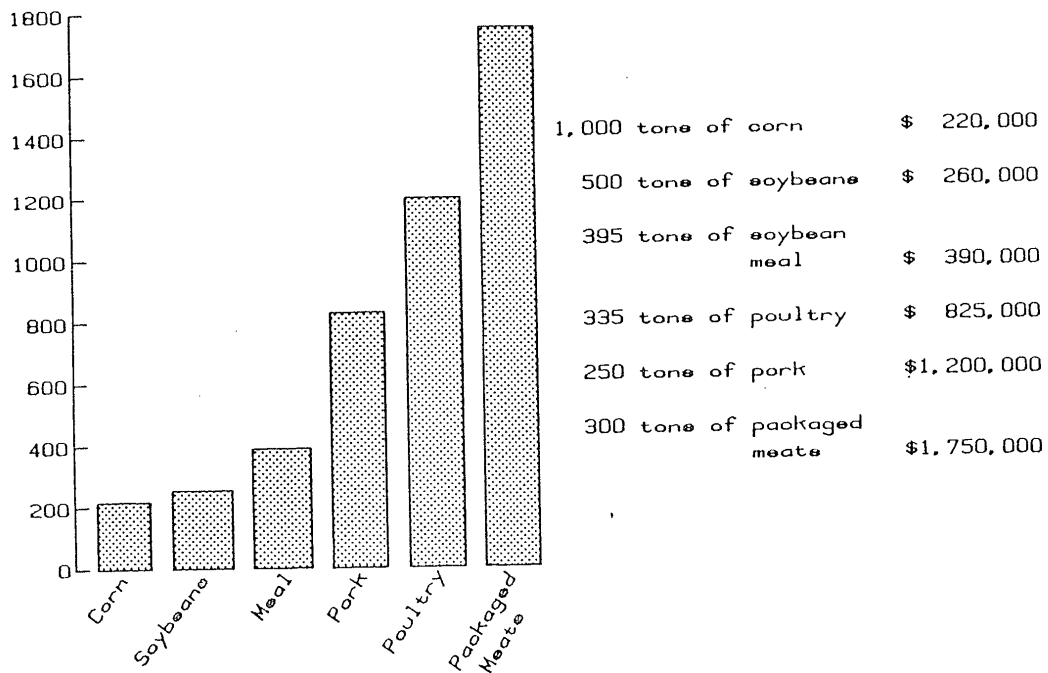
Employment to Export 1,000 tone of Wheat as:

Man years of labor



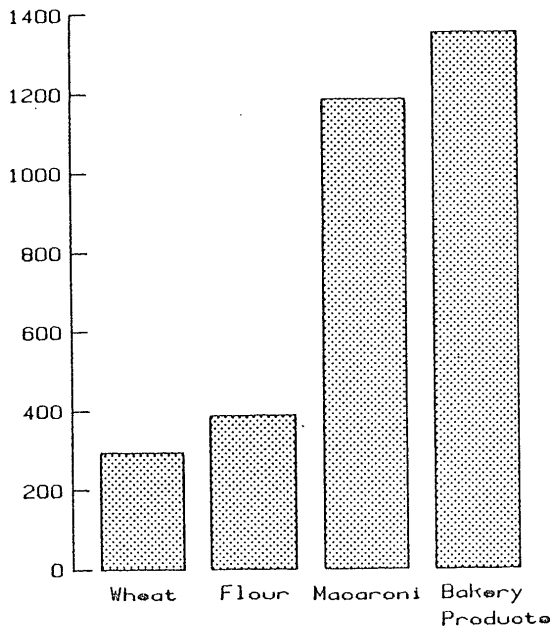
### GNP GENERATED IN THE EXPORT OF SELECTED FARM PRODUCTS (1980 DATA)

GNP Generated in Exporting 1,000 tons of Feedstuffs as:  
\$1,000 in GNP



GNP Generated in Exporting 1,000 tons of Wheat as:

\$1,000 in GNP



1,000 tons of wheat	\$ 295,000
740 tons of flour	\$ 390,000
650 tons of macaroni	\$1,185,000
600 tons of bakery products	\$1,350,000