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FROM WASHINGTON 152325Z MAY 85

TO PRIORITY FCO

TELEGRAM NUMBER 1576 DATED 15 MAY

INFO PRIORITY UKREP BRUSSELS, UKMIS GENEVA, PARIS, BONN, ROME,
THE HAGUE.

EC:US AGRICULTURE: EXPORT PIK

SUMMARY

1. AGRICULTURE SECRETARY BLOCK AND SENATOR DOLE ANNOUNCE INTRODUCTION OF A DOLLARS 2B COMMODITY EXPORT BONUS PROGRAMME TO LAST FOR THREE YEARS. FIRST SALES TO BE ANNOUNCED BY JUNE 1. PROGRAMME AIMED AT MARKETS QUOTE UNFAIRLY UNQUOTE TAKEN BY EC, BRAZIL AND OTHERS.

DETAIL

2. BLOCK AND DOLE GAVE A JOINT PRESS CONFERENCE ON THE HILL THIS AFTERNOON TO ANNOUNCE THE INTRODUCTION OF AN QUOTE EXPORT ENHANCEMENT PROGRAM UNQUOTE UNDER WHICH DOLLARS 2B WORTH OF SURPLUS COMMODITIES IN CREDIT COMMODITY CORPORATION STORE WILL BE USED OVER THE NEXT THREE YEARS AS SUBSIDIES ON EXPORTS OF US AGRICULTURAL PRODUCTS. ANNOUNCEMENTS ON AN INITIAL SERIES OF SUCH SALES WILL BE MADE BY JUNE 1. DETAILS OF THE LONGER TERM APPROACH WILL BE WORKED OUT OVER THE NEXT FEW WEEKS. TWO CRITERIA WILL APPLY TO THE NEW SCHEME. SALES MADE UNDER IT MUST BE QUOTE ADDITIONAL UNQUOTE AND THEY QUOTE MUST BE TARGETED TO MARKETS IDENTIFIED AS THOSE WHICH WERE TAKEN OVER BY COMPETING NATIONS WITH THE USE OF UNFAIR TRADE PRACTICES UNQUOTE. (TEXT OF STATEMENTS BY BAG).

3. BLOCK SAID AT THE BRIEFING THAT CCC STOCKS COULD BE USED TO SUBSIDISE EXPORTS OF ALL AGRICULTURAL COMMODITIES E.G. EXPORTS OF POULTRY (WHICH IS NOT IN CCC STORE) COULD BE CROSS SUBSIDISED BY A BONUS OF WHEAT CORN OR SOYABEANS (WHICH ARE). NO NAME HAS YET BEEN CHOSEN FOR THE NEW SCHEME. BLOCK SAID IT WOULD NOT BE CALLED BICEP (DOLE'S PREFERRED TITLE) NOR EXPORT PIK.

4. THE INITIAL PHASE OF THE SCHEME IS APPARENTLY TO BE OPERATED UNDER EXISTING LEGISLATION. DOLE WILL NOT, AT LEAST FOR THE MOMENT, BE INTRODUCING HIS BICEP LEGISLATION (OUR TELNO 1528), THOUGH IN HIS STATEMENT TODAY HE INSISTED ON THE NEED FOR QUOTE AN ADVISORY COUNCIL UNQUOTE INCLUDING FARMERS TO QUOTE MONITOR THE OPERATION UNQUOTE OF THE NEW SCHEME. THE SENATE AGRICULTURE COMMITTEE WHICH HAS NOW BEGUN MARKING UP THE FARM BILL, REPORTED OUT YESTERDAY LEGISLATION TO GIVE COVER FOR A GENERAL EXPORT PIK PROGRAMME AND, SEPARATELY, TO EXEMPT BLENDED CREDIT FROM CARGO PREFERENCE. IT IS UNCLEAR WHETHER IN THE LIGHT OF TODAY'S ANNOUNCEMENT THE FIRST BILL WILL STILL BE PUSHED TO AN EARLY VOTE ON THE SENATE FLOOR.

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5. USDA ARE SAYING THAT THEY ARE CONFIDENT THAT CARGO PREFERENCE (UNDER WHICH 50 PERCENT OF CONCESSIONAL SALES MUST GO IN UNCOMPETITIVE US BOTTOMS) WILL NOT APPLY TO THE NEW PROGRAMME. THOUGH THEY CONFIRM THAT THE NEW PROGRAMME WILL BE A SELECTIVE RATHER THAN A GENERALISED EXPORT SUBSIDY SCHEME, THEY CLAIM THAT NO DECISIONS HAVE YET BEEN TAKEN OVER TARGET MARKETS, THOUGH THERE IS SOME TALK OF LATIN AMERICA AS WELL AS THE MIDDLE EAST. LESHER (EX-USDA) WHO HAS BEEN WORKING CLOSELY WITH DOLE ON THE SCHEME, TOLD FIRST SECRETARY (AGRICULTURE) THAT THE INITIAL SALES WOULD PROBABLY BE FAIRLY SMALL AND AIMED AT BRAZILIAN AND, POSSIBLY, ARGENTINIAN MARKETS AS WELL AS THE EC'S. POULTRY WAS THE PRODUCT EXAMPLE HE CITED.

COMMENT

6. USDA HAVE NOW RECOVERED SOME OF THE INITIATIVE ON EXPORT PIK IN THAT, AT LEAST IN THE INITIAL PHASE, THEY, RATHER THAN AN INDEPENDENT COMMISSION, WILL BE RUNNING THE SCHEME AND UNDER EXISTING LEGISLATIVE AUTHORITY. THEY HAVE ALSO BEEN SUCCESSFUL IN INSISTING ON A SELECTIVE RATHER THAN A GENERALISED SCHEME. BUT THEY WILL NOW BE ON THEIR METTLE TO MAKE IT WORK.

7. PARADOXICALLY, AS THE MOMENTUM BEHIND THE SCHEME HAS GATHERED, DOUBTS HAVE SURFACED ABOUT ITS LIKELY EFFECTIVENESS. CHICAGO WHEAT PRICES FELL 50 A BUSHEL YESTERDAY WITH FEARS OF LOWER PRICES AS SURPLUS STOCKS FLOOD ON TO THE MARKET. BOTH MEAT AND COTTON PRODUCERS ARE COMPLAINING THAT IT WILL GIVE AN UNFAIR ADVANTAGE TO OVERSEAS PROCESSORS WHO WILL GET US RAW MATERIALS MORE CHEAPLY THAN THE DOMESTIC INDUSTRY.

8. FCO PLEASE PASS TO SHEPHERD AND WARREN (ECD(E)), PRYOR (DTI) AND HADLEY, COCKING, LOWSON AND RING (MAFF).

WRIGHT

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MR HADLEY)
MR COCKING) MAFF
MR LOWSON)
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