WHORM Subject File Code: FO006-01
(Foreign Affairs: Economic Summit, Ottawa, Canada, 07/19/1981-07/20/1981)
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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
243464	PAPER	DUPLICATE OF #243462; THE PRESIDENT'S BILATERALS AT OTTAWA	3	ND	B1
243465	PAPER	DUPLICATE OF #243463; DRAFT PRESIDENT'S STATEMENT	10	ND	B1

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]
B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
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B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
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EAST-WEST ECONOMIC RELATIONS

Background

The U.S. placed the topic of East-West economic relations on the Summit agenda. It prepared a framework paper entitled "East-West Economic Relations: A Prudent Approach", which was first given to the UK, FRG and France and later to other Summit countries at the Vancouver preparatory meeting June 4-6.

Other countries reacted in a generally positive way, welcoming a discussion of these issues in a noncrisis setting, but also indicating concern that the U.S. approach may be too restrictive and may be aimed primarily at creating new institutions to discuss these issues. The Summit countries continue to believe that East-West economic relations have a political content and while favorably disposed to high level discussion in COCOM of security controls, have thus far signaled a reluctance to pursue beyond the Summit other aspects of our "Prudent Approach." The U.S. has down-played the political importance of East-West economic relations for either positive or punitive purposes and has put emphasis on the substance rather than the forum of these discussions.

U.S. Objectives

(NOTE: We may be able to sharpen considerably these objectives following NSC discussion in late June/early July).

-- To begin the process of persuading the Summit countries that changed political and security conditions with respect to the USSR necessitate systematic and sustained review of East-West economic relations to ensure that they are consistent with Summit countries' security objectives.

-- To emphasize our interest in a coordinated approach by the Summit countries so that the Soviet Union cannot exploit differences. Such coordination also leads to positive leverage in dealing with the USSR.

-- To obtain a commitment from other leaders to work closely with us in reviewing East-West economic relations, particularly in the areas of :

- Strategic trade controls;
- Contingency planning in the economic area in the event of a major crisis with the Soviet Union;
- Guarding against Western economic dependence which in turn could lead to Western vulnerability;
- Use of Western economic influence in ways advantageous to our interests.

Discussion of Issues

The Soviet Union and its Warsaw Pact allies remain the principal threat to Western security. At the same time, the Soviet Union and its allies are experiencing unusually difficult economic conditions. Thus Soviet militancy creates a need and Soviet economic difficulty provides an opportunity for Western countries to further their overall objectives by pursuing more competitive or less cooperative policies toward the Soviet Union across a range of issues.

The fundamental question confronting the U.S. and its Western allies is under what guidelines should we collectively restrict, monitor, or use the influence of our economic relations with the USSR and Eastern Europe to advance broader Western political-security objectives?

We wish to work out a coordinated approach with our allies in the following four areas.

1. Strategic Trade Controls - We need to strengthen these controls by clearly identifying security concerns; by better coordinating with allies on enforcement problems; and by improving the administration of export restrictions.
(NOTE: An options paper has been prepared on this subject for the NSC.)

2. Foreign Policy Contingency Controls - At Vancouver the Summit countries agreed that the leaders would have a substantive discussion of the issues at Ottawa and that the U.S. paper would be redrafted to propose the critical questions for this discussion. We need to determine how the Summit countries can best prepare for a future East-West crisis, recognizing that economic sanctions imposed unilaterally after a crisis, as was done in the case of Afghanistan, exacerbate divisions among the Summit countries but also recognizing that collective contingency planning such as was done for the Soviet invasion of Poland can serve as a useful instrument of Summit countries' policy and a precedent for future planning in this area.

3. Economic Security - We need to monitor more carefully the level and character of trade with the East to ensure that we not become dependent upon Eastern resources and markets, with a consequent Western vulnerability to the exercise of Soviet influence. East-West energy relations are a high priority area for discussion with the allies (see separate paper).

4. Economic Influence - We should coordinate broad Western policies toward our trade and financial relations with the Eastern European countries and, in the longer run, the Soviet Union so that Western governments can use what influence they do have to affect their economic systems and their political behavior in ways favorable to Western interests. Recent Polish debt negotiations, during which Western governments worked together to maximize their influence, was an excellent example of this approach.

We need to discuss with our allies in what fora we can best consider the issues related to these four areas and whether there is a need to create new mechanisms. For example, we should consider whether to attempt to revitalize the COCOM high-level Consultative Group to focus attention on the importance of strengthening strategic trade controls.

<u>Other Leader's Objectives</u>

-- To learn what the U.S. proposes by way of a new approach to East-West economic relations;

-- To head off proposals by the U.S. or others to alter the character of East-West economic relations in ways which impose more than minimal sacrifices on Western Europe;

-- (Particularly the FRG) to argue that East-West economic relations can make a positive contribution to Western economic health and to a general reduction of East-West tensions.

While Western European and Japanese leaders generally agree on the threat posed by the Soviet military buildup and by increased Soviet aggressive behavior, there is no consensus that a restructuring or altering of East-West economic relations is necessary. They will argue that generally there should not be a close linkage between economic and political policies and that trade relations can be a positive factor in the East-West relationship. In addition, they will maintain that even though some Western European countries have a substantial stake in trade with the East, they are far from being dependent upon such trade and thus they are not vulnerable to Soviet manipulation. Nevertheless, they may be willing to work with the U.S. in certain areas, e.g. energy imports from the East, to ensure that no dependency relationships are created.

On COCOM, other Summit leaders will agree that there must be adequate controls on items which can make a significant contribution to Soviet military potential, but they are likely to argue that a substantial broadening of COCOM controls is not necessary. In particular, they are likely to be chary of proposals to control trade in the general industrial area unless such trade has a reasonably direct and significant impact on military potential. They would probably support a high level meeting of COCOM to review the adequacy of strategic trade controls.

Energy Issues

[Following Papers Need to be Reorganized, Revised and Tightened]

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The President's Objective on Energy Issues

These seems to be more consensus on these issues than on any others at the Summit. The President will take positions on coal and nuclear power consistent with the policy statements that have been prepared on these subjects. He will want to stress the constrasts between the energy situation that prevails today and that which existed after the first oil shock in 1973-74. Today, market prices are in place and at work. The structural change that is taking place in the production and use of energy is dramatic. In the first quarter of 1981 the United States economy grew at a real rate of 8.4 percent per year; yet in the same period decreased oil consumption by 7.0 percent and oil imports by 20 percent. This gives no reason for complacency, but it should strengthen confidence in market-oriented policies, which reflect the significant increase in oil prices in 1979 and 1980, and the recent decision in the United States to fully decontrol oil prices.

Two other issues might be stressed. If the President is to be credible on nuclear power, he must address the waste issue which is seen as a primary responsibility of governments. Secondly, he may wish to give emphasis to the role of stocks in dealing with short-term oil emergencies. While substitution for oil accelerates under the impact of market pricing, the industrial democracies continue to depend heavily on oil from the Middle East. U.S. policy seeks to enhance stability in the Persian Gulf. That reduces the risk of disruption. Nevertheless, if disruptions occur, the best defense is high stocks. Such stocks provide the confidence and time during which the IEA governments can convene consultations and determine what further actions may be necessary. The United States is currently filling its strategic stockpile at unprecedented rates. The President should indicate that other countries and also private sectors should do the same if they wish to be protected in the initial stages of another oil disruption.

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BRIEFER ON ENERGY

Energy Security is the theme which ties together the various energy issues summit leaders may wish to discuss. The current soft oil market threatens to lull summit countries into unwarranted complacency. The summit leaders should agree to use this breathing spell to undertake policies to enhance existing energy contingency plans and to accelerate development of alternative energy supplies, such as coal and nuclear.

France, Germany and Italy as well as other European countries are interested in importing substantial new volumes of Soviet natural gas, which would be transported to Europe from Western Siberia by a new pipeline project. We have been concerned that this proposed arrangement could make European nations susceptible to Soviet political pressure and weaken western security. We therefore have urged the Europeans not to take any action hastily and at a minimum, explore means of limiting their vulnerability by:

-- reducing the amount of Soviet gas imported;

-- developing a safety net of emergency procedures to mitigate any supply interruption, such as surge production capacity, increased gas storage, and concentrating imported gas on interruptible uses

Other summit nations will seek our commitment to work with them on improving preparedness for oil supply interruptions. We remain committed to the IEA oil sharing system; since other nations may be concerned about the expiration of the Energy Policy and Allocation Act (EPAA) on September 30, we should reassure them that we will maintain whatever domestic governmental authority we need to meet our obligations under the IEA oil sharing program.

We believe that large stocks and market forces offer the most effective protection against smaller supply interruptions. We agree, however, on the need to consult closely with industry and other governments and to take whatever action is judged to be necessary. The seriousness with which we respond to European concerns on this issue will influence their responsiveness to us on our Soviet gas import concerns.

Increased coal trade and use is a promising avenue for enhancing the energy security of Europe and Japan. The U.S. welcomes expanded coal trade. The President's Coal Policy Statement will reassure other countries as to the seriousness of our commitment to overcome port congestion problems and environmental obstacles. We intend to rely on

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the private sector to develop coal export infrastructure. The Administration has proposed legislation to finance port dredging by user fees. The U.S. welcomes foreign investment in coal infrastructure. The U.S. has committed itself not to interfere with coal exports except in the case of a national emergency. We believe that the responsibility for increasing trade must be shared by the producing and consuming countries.

During the previous Administration the potential role of nuclear power in meeting world energy needs was de-emphasized and an attempt was made to deal with non-proliferation issues on the basis of broad precepts rather than with regard to differing actual circumstances. In particular, it led to unilateral U.S. attempts to thwart development of various portions of the nuclear fuel cycle in developed countries for fear of creating precedents which could be invoked by potential proliferators. This approach created serious tensions between us and our major allies, many of whom have fewer alternatives to nuclear energy than we.

Our new non-proliferation policy will do much to alleviate these tensions. In talks with other Summit leaders we will want to emphasize (a) the importance we place on nuclear power, (b) our determination to restore our image as a reliable nuclear supplier, (c) our continued concern about the risks of proliferation, in sensitive regimes particularly in light of the Israel/Iraq situation, and (d) our commitment to finding realistic approaches, in coordination with our allies, to minimize proliferation risks.

Following a request by the Venice Summit to consider possibilities for improving and expanding its energy lending program, the World Bank proposed an expansion of its FY 82-86 energy lending program from $14 to $30 billion which would be financed through creation of a separate energy affiliate. After careful consideration, the U.S. informed the Bank in February and again at the June 4 Bank Board meeting that it could not support or participate in the proposed energy affiliate. While opposing the Bank affiliate proposal, the U.S. reserved judgment on the expanded energy lending program itself. Among Summit countries, only Canada now clearly supports a Bank affiliate. On the other hand, almost all Summit participants have indicated they favor an "expanded role" for the Bank in energy development, and most are prepared to discuss the Bank's expanded energy lending program and its financing.

Summary Matrix

[To be Provided]

Future Summits

[To be Provided]

III. Background Papers

(B) Bilateral Issues

[Following Papers Will Be Revised by State and NSC]

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III. BACKGROUND PAPERS

(C) Points of Special Sensitivity

1) Interest Rates, Fiscal Policy and Exchange Markets
[To be Retyped]

CONTINGENCY POINTS

(The following is intended for use in addressing specific issues which may arise in the course of formal and informal discussions. The European Council (Heads of Government) will meet prior to the Ottawa Summit to try to agree on a common line. These talking points for responding to other countries' assertions may need to be revised in light of that meeting.)

1. <u>Excessive reliance on control of money growth is causing unnecessarily high U.S. interest rates and downward pressures on foreign currencies, forcing others to adopt unduly restrictive domestic policies</u>.

-- HIGH AND FLUCTUATING INTEREST RATES IN THE UNITED STATES ARE, OF COURSE, ONE FACTOR IN EXCHANGE MARKET DEVELOPMENTS AND CURRENT DOLLAR STRENGTH, BUT THEY ARE BY NO MEANS THE ONLY ONE. POLITICAL AND ECONOMIC DEVELOPMENTS IN EUROPE AND OTHER AREAS ARE AS IMPORTANT, IF NOT MORE SO.

-- I CAN ASSURE YOU,WE DO NOT <u>WANT</u> HIGH INTEREST RATES. WE ARE NOT <u>USING</u> INTEREST RATES AS A POLICY TOOL. HIGH INTEREST RATES ARE HARMFUL TO OUR ECONOMY, AS THEY ARE TO OTHERS BUT THEY ARE ONE OF THE SIDE-EFFECTS OF A LONG PERIOD OF INFLATION.

-- OUR AIM IS LOW INTEREST RATES AND INCREASED REAL SAVING. THE RECORD IN THE U.S. IS CLEAR: SLOWER MONEY GROWTH BRINGS LOWER INTEREST RATES, ESPECIALLY OVER THE LONGER RUN.

-- I BELIEVE THAT I UNDERSTAND THE POLITICAL PROBLEMS MANY OF YOU FACE FROM RECORD HIGH UNEMPLOYMENT. I AM STRUGGLING WITH SOME OF THE SAME PROBLEMS -- ESPECIALLY IN A FEW DEPRESSED INDUSTRIES AND REGIONS. BUT IF WE HAVE LEARNED ANYTHING FROM THE 1970s IT IS THAT WE MUST LICK INFLATION IF WE ARE TO RESTORE VIGOROUS

GROWTH. THAT TASK WILL TAKE TIME, COURAGE AND PERSISTENCE.

2. Tighten fiscal policy (e.g., defer the tax cuts) to ease the burden on monetary policy.

-- THE TAX CUTS ARE AN ESSENTIAL PART OF OUR EFFORT TO ENCOURAGE WORK, SAVING AND CAPITAL FORMATION -- THE UNDERPINNINGS OF ECONOMIC GROWTH.

-- THE TAX PACKAGE I HAVE PROPOSED WILL NOT ONLY INCREASE REAL PRODUCTION, HELPING TO REDUCE INFLATION, BUT IT WILL ALSO INCREASE THE POOL OF SAVINGS, TENDING TO PUSH DOWN INTEREST RATES. IN PARTICULAR, THE ACROSS-THE-BOARD CUTS IN PERSONAL TAX RATES WILL HAVE VERY DIFFERENT EFFECTS ON SPENDING AND SAVING DECISIONS THAN TRADITIONAL TAX CUTS FOCUSED ON LOWER INCOME GROUPS.

-- WE ARE COMMITTED TO ELIMINATING THE DEFICIT BY 1984. MEANWHILE, WE ARE REDUCING THE DEFICIT BUT CANNOT OVERCOME A LEGACY OF PAST BUDGET MISMANAGEMENT -- DISTORTIONS AND DISINCENTIVES IN A TAX STRUCTURE THAT DISCOURAGES ENTERPRISE, AND EXCESSIVE GROWTH IN GOVERNMENT SPENDING.

Def is smaller than in Europe

-- DELAYING ACTION ON THESE LARGER ISSUES FOR THE SAKE OF BALANCING THE BUDGET A YEAR OR TWO EARLIER WOULD BE SHORT-SIGHTED.

-- A SMALL GROUP OF MY SENIOR ADVISERS IS CAREFULLY MONITORING THE DEFICIT AS EXPENDITURE AND REVENUE TRENDS DEVELOP. ANY TENDENCY FOR THE DEFICIT TO RISE ABOVE OUR GUIDELINES IS IMMEDIATELY COUNTERED

Did 80 in April

BY NEW PROPOSALS TO CUT SPENDING. OUR RESOLVE TO CUT THE DEFICIT IS STRONG.

3. Intervene in the exchange markets to hold down the dollar and insulate foreign economies from the effects of high U.S. interest rates.

-- OUR APPROACH TOWARD THE EXCHANGE MARKETS IS TO ALLOW MARKETS TO OPERATE FREELY AND EFFICIENTLY, IN AN ENVIRONMENT OF STABLE DOMESTIC PRICES AND VIGOROUS ECONOMIC GROWTH. OUR PROGRAM IS DESIGNED TO PROVIDE A LASTING BASIS FOR A STRONG AND STABLE DOLLAR.

-- THE EXCHANGE MARKETS FOR MAJOR CURRENCIES ARE BROAD AND EFFICIENT. GOVERNMENT INTERVENTION CANNOT FUNDAMENTALLY AFFECT THEM; ATTEMPTS TO RESIST FUNDAMENTAL TRENDS ARE CERTAIN TO BE COUNTERPRODUCTIVE.

-- WE QUESTION WHETHER INTERVENTION IS NECESSARILY STABILIZING, EVEN IN THE SHORT RUN. ATTEMPTS TO HOLD RATES AGAINST MARKET FORCES COMBINED WITH UNCERTAINTY ABOUT GOVERNMENT INTERVENTION, MAY WELL INDUCE --RATHER THAN PREVENT -- DESTABILIZING SPECULATION.

Did intervene after assass.

-- U.S. INTERVENTION TO HOLD THE DOLLAR DOWN -- INJECTING DOLLARS INTO THE MARKET -- WOULD CONFLICT WITH OUR EFFORT TO REDUCE MONEY GROWTH.

-- MORE FUNDAMENTALLY, WE DO NOT BELIEVE INTERVENTION CAN EFFECTIVELY SHIELD ECONOMIES AND POLICYMAKERS FROM THE NEED IN THE LONG RUN TO TAKE APPROPRIATE DOMESTIC ECONOMIC MEASURES.

-- WE RECOGNIZE THAT EXCHANGE RATE BEHAVIOR IS A PROPER SUBJECT FOR INTERNATIONAL CONCERN AND DISCUSSION. IN THIS SPIRIT, WE REMAIN PREPARED TO INTERVENE IF CONDITIONS OF SERIOUS MARKET DISORDER ARISE. WE ARE NOT, HOWEVER, PREPARED TO ENGAGE IN REGULAR INTERVENTION OR TO TRY TO MANAGE EXCHANGE RATES.

back off on this non-interv.

2) Multilateral Aid

[asked Tom Dawson in Treasury to provide updated status of legislation and what this Administration has done to secure passage]

3) Trade with East

[Factual Material in CIA papers in Briefing Book Needs to be Integrated with Points President Will Make Based on NSC Decisions before Summit]

4) Global Negotiations [To be Worked Over by Chuck [illegible] giving points to counter pressure to accept Global Negotiations]

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GLOBAL NEGOTIATIONS

In December 1979, the US joined in the consensus adopting a 34th UNGA resolution calling for "... a round of global and sustained negotiations on international economic cooperation for development ..." However, we made clear in a statement we would join GN's only if procedures and agenda could be agreed. The purpose of Global Negotiations (GNs) is to create a central forum within the UN system for the consideration of major international economic issues such as raw materials, energy, trade, finance and development. Although the procedures and agenda to be used in conducting GNs have been actively negotiated in New York, it has not been possible to reach agreement.

The basic controversy has involved differing conceptions of the nature of GNs. The US and many other industrialized countries see GNs as a central forum for discussing major issues, with real negotiations being carried out in the specialized bodies within the UN system such as the IMF or GATT, for all of those issues for which such bodies exist. The central forum would only collate and ratify the results of these negotiations. On the other hand, most of the developing countries insist that the central forum should have the power to direct or even renegotiate the results of work in the specialized bodies. Thus, in our view, the major issue has been protecting the authority and responsibility of the specialized bodies.

Although the procedures text, as it now stands, provides for agreement by consensus in the central forum on "all important matters," we believe that this requirement alone would not preclude negotiations in the central forum or provide adequate protection for the specialized bodies. We have become increasingly skeptical that anything of economic value would emerge from GN's. However, assuming that our procedural and agenda points are met, we may be obliged to participate due to possibly overriding political considerations.

At the UNGA Meeting of the Whole in New York on May 5, the US proposed that preparations for GNs be deferred at least until the 36th UNGA Regular Session this fall and after other scheduled intervening meetings including the economic summits at Ottawa and Cancun (October 22-23). All other countries would have been willing to resume preparations immediately as sought by UNGA President von Wechmar (FRG), although several recognized that further meetings would be pointless without US participation. Neither summmit is scheduled to discuss GNs formally, but it is probable that the Canadian, French or other delegates will raise this issue at Ottawa and the subject is almost certain to come up at Cancun. At some point, the current 35th UNGA must be reconvened to defer GNs formally to the 36th UNGA. We would like to have this deferral handled as quickly and quietly as possible.

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5)

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THE CANCUN SUMMIT

President Reagan will attend a summit on economic cooperation and development in Cancun, Mexico, October 22-23. There will be twenty-one other participants,* including all Ottawa summit participants except Italy. The USSR declined to attend, and Cuba was not invited at US suggestion.

The eleven co-sponsoring governments have promised that the Summit will be open and informal, with no agenda and no communique, although as host Lopez Portillo may summarize suggestions which "emerge." All Ottawa participants should agree that this format be preserved and that there be no structured preparation such as papers and prior meetings of personal representatives. This agreement would be followed by foreign ministers on August 1-2 at the only preparatory meeting for Cancun.

The U.S. views the Cancun summit as a useful opportunity to meet with most of the more significant heads of government for an exchange of views on global economic problems. The U.S. will want to discuss energy, food, trade, population, and global ecology problems. Other participants will have other problems to suggest.

Such a discussion should be more beneficial than the political dialogue in the U.N. which, for 18 months, has focused on procedures and agenda for the proposed "global negotiations" on all major international economic problems (See separate paper).

Except for the U.S. and the U.K., the Ottawa countries view Cancun and global negotiations as politically necessary parts of a multilateral dialogue among economically interdependent nations. They believe that such a dialogue creates a better atmosphere in which to carry out their bilateral and regional objectives. They would like to include the U.S. in a general endorsement of global negotiations so this will no longer be an issue during the Cancun summit. Prime Minister Trudeau would like to take credit for thus having "settled" the issue in Ottawa.

The United Kingdom shares US views on Cancun and global negotiations. However, the U.K. will chair the EC from July 1 to December 31 and therefore may temper its public support to accommodate the other EC members.

*Algeria, Austria, Bangladesh, Brazil, Canada, China, France, FRG, Guyana, India, Ivory Coast, Japan, Mexico, Nigeria, Philippines, Saudi Arabia, Sweden, Tanzania, UK, Venezuela, and Yugoslavia (co-sponsors underlined).

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6) Energy Affiliate

[Ask Rud Poats, NSC, to provide points on U.S. position]

7) Polish Debt

[Ask Rud Poats, NSC, to supply Points President Will Make About U.S. Position Toward Aid to Poland in general and New Credits at this time in particular]

8) AUTOMOBILES [To be Reorganized]

Talking Points on the Japanese Unilateral Restraint on Auto Exports

- The decision by Japan to restrain unilaterally its auto exports to the United States was based on that government's assessment of its long term interests. Protectionist sentiment was growing in this country, particularly in the U.S. Congress, in response to the depressed state of the domestic industry.

- The U.S. auto industry is vital to the U.S. economy. The industry and its suppliers account for 8 1/2 percent of our gross national product and employ 4 million, or 1 out of 6, American workers. In 1980, domestic auto production dropped to the lowest point in 19 years and unemployment reached a peak of nearly 1 million. Domestic manufacturers lost $4.3 billion and suffered a cash flow deficit of $9 billion.

- The cash flow deficit occurred just at the time when the auto industry was in the midst of a $80 billion investment program necessary for it to regain international competitiveness.

- Japanese import penetration increased to well over 20 percent of the U.S. market before the domestic pressures for Congressional action became overwhelming. This was a level far higher than the Japanese import penetration in any other Ottawa Summit members' auto market.

- The Japanese government's decision provided U.S. auto manufacturers the breathing space necessary for this retooling effort. In addition, the decision avoided quota legislation which could have precipitated world-wide retaliatory measures.

Japanese Auto Export Restraints: The Japanese have announced the following auto export restrictions. To our knowledge no others are planned.

United States: In Japanese FY 1981 (4/1/81-3/31/82), MITI will restrain auto exports to 1.68 million units. In JFY 1982, this level will be adjusted by 16.5 percent of the change in total U.S. auto sales as forecasted by MITI. Further separate measures will be taken with respect to Japanese exports to Puerto Rico (contained in the U.S. Customs zone) and exports of "vans" (station wagons and utility vehicles) which for statistical purposes the Japanese Auto Manufacturers Association define as cargo carrying vehicles and the U.S. defines as passenger vehicles. The necessity for a third year of restraints will be considered by the Japanese at the end of the second restraint year.

Canada: During JFY 1981, Japan will limit its exports of passenger cars to 174,ØØØ units, a 6 percent decline from JFY 198Ø, but a 1Ø percent increase over the 198Ø calendar year level. Before the end of JFY 1981, Japan and Canada will consult on the need for a second restraint year.

EC: Due to restrictions on Japanese auto imports by the UK, France and Italy, Japan will not implement an EC-wide export restraint. Japan has taken specific measures with regard to Germany and Belgium.

Germany: Calendar year 1981 passenger car exports are "forecast" not to exceed the 198Ø level by more than 1Ø percent.

Belgium: We believe that Japan has agreed to reduce its 1981 calendar year exports by around 7 percent from the 198Ø level.

Truck Cab Chassis: At Japan's request we are currently attempting to schedule a date to begin formal consultations under GATT Article XXII.

Administration's Auto Program: The program rests primarily on the Economic Recovery Program, which should stimulate U.S. auto sales and assist the industry to raise investment capital. Other steps include the modification or elimination of 34 U.S. safety and emission regulations, antitrust actions and other measures.

U.S. Auto Sales: The U.S. auto market continues to suffer from a sluggish economy and high interest rates. Total 1981 car sales through May are down 2.3 percent from the equivalent period last year. Sales of U.S.-made cars declined 3.4 percent while imported car sales increased Ø.6 percent from the same period last year. The number of Japanese-made cars sold here has declined by Ø.7 percent. On a seasonally adjusted basis, U.S. auto sales through May were running at a 9.3 million unit annual rate (9.Ø million autos were sold in the United States in 198Ø). Sales are likely to remain low until this fall when the U.S. economy is expected to improve and interest rates are expected to decline. The Administration forecasts total U.S. auto sales to be 9.5 million units in 1982.

AWarner/377-2831/7-2-81 Wang No. 992ØG

Japanese Auto Import Penetration
(Percent of Market)

	1979	1980
United States	16.6	21.3
Canada	8.0	14.8
United Kingdom	10.8	11.9
France	2.2	2.9
West Germany	5.7	10.5
Italy	--	.1
EC Market	6.9	9.0

OISP/ITA
U.S. Department of Commerce
July 2, 1981

9)

STEEL

We have had difficult steel trade problems with our major trading partners - particularly the EC - since the 1960's, but they have become especially acute since 1977. Mismanagement of steel trade issues could threaten US-EC trade relations in general and could develop into a major foreign policy problem.

Since 1977, U.S. steel imports have been subject to price and quantitative monitoring under the Trigger Price Mechanism (TPM). This system permits the Commerce Department to respond rapidly if imported steel mill products are sold in the U.S. below fair value (dumping) or if injurious increases in steel imports are the result of subsidization or dumping.

Our steel import monitoring represents a multilateral understanding with our major trading partners - Japan, Canada, and the EC - on the root causes of steel trade distortions. The TPM, which was suspended and then reinstituted in 1980, is designed to detect and discourage unfair trade in steel for a period of up to five years. During this time, the European industry is to restructure itself to eliminate inefficient excess capacity. Simultaneously, the U.S. industry will begin modernizing to restore its international competitiveness.

The TPM has not closed our market to steel imports. Total U.S. steel mill product imports grew this year about 4.0 percent through May, compared with last year. Imports from Canada grew by 44 percent and those from the EC were up 15 percent (after sharp declines in 1979 and 1980). These increases reflect our first quarter GNP growth, Canada's efficient production, and strong demand for certain products in relatively short supply here (oil drilling pipe and tube).

The EC Commission is trying to promote the European industry's readjustment. Mandatory and voluntary production quotas are being implemented. The EC has also decided, pending final agreement by West Germany and Belgium, to end all subsidy payments to its steelmakers by the end of 1985. Certain payments will be phased out sooner. These subsidies have propped up inefficient capacity. If the EC can carry out this timetable and reduce its steelmaking capacity, it will go a long way toward meeting our steel industry's concerns about unfair European competition. Failure would put us under strong domestic pressure either to confront the EC over their subsidies or to adopt more restrictive steel trade measures.

10) U.S. Contributions to LDCs in Non-AID Areas

[To be provided by Adrian Basora in State]

IV. REMARKS/STATEMENT-COMMUNIQUE

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243465	PAPER DUPLICATE OF #243463; DRAFT PRESIDENT'S STATEMENT	10	ND	B1

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