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47

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
243466	PAPER	DUPLICATE OF #243462; THE PRESIDENT'S BILATERALS AT OTTAWA	3	ND	B1

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

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THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

DATE: July 8, 1981

MEMORANDUM TO: Dick Darman

FROM: Murray L. Weidenbaum 

SUBJECT: Ottawa Summit briefing papers

I agree with the general approach to the Summit outlined in the briefing materials circulated by your memorandum of July 6. The emphasis should clearly be placed on the wide areas of agreement among the seven summit leaders while downplaying the public rhetoric, so common in recent weeks, on the differences. The suggested approach to Mitterand is bold and inventive --and success with Mitterand would be a key to the success of the overall strategy. My own contacts with the new French officials lead me, however, to suggest that a well-developed fall-back should be provided for the President if Mitterand is unwilling to go along with the proposed scenario.

On specifics. I would like to make 2 suggestions:

- I am skeptical of the value of launching "a series of discussions among the various sectors of our societies" in the paper on macroeconomic issues. Such discussions -- whether under business, labor or academic auspices -- are already widespread, and we as a Government participate in them extensively. We have made special efforts over recent months to improve our efforts to communicate U.S. economic policy, its rationale, methods and objectives, to other governments -- bilaterally and in international organizations. While we may have neglected our international selling-job early on, we have made important advances recently. Post-Ottawa, we as a government should continue to use every opportunity to present and explain our policy, but I do not believe that the Summit should formally endorse (or launch) a "series of discussions" which will inevitably focus on differences not agreement.
- Two points on the "Briefer on Energy";

First, in the context of IEA oil sharing system, we should reassure our partners that we will maintain whatever governmental authority is required to meet

our obligations. The word "domestic" implies authority related to domestic allocation of oil -- a decision on which we have not yet made.

Second, on strategic oil stocks, we should make a stronger statement to our Summit partners, to wit: that our willingness to increase U.S. stocks will depend to some extent on the action of others in building their strategic stocks. The rationale for this position is that the benefits from stock piling is a function of the total stock -- thus if others do not build stocks they nevertheless gain from our willingness to do so.

In the background material dealing with Schmidt reference should be made to further evidence of a growing debate in Germany over the Government's management of the economy, particularly with respect to excessive government spending and resulting budget deficits.

Finally, I am appending an annotated version of the entire set of briefing materials with a number of smaller substantive and editorial suggestions.

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Document No. 019806SS

WHITE HOUSE STAFFING MEMORANDUM

DATE: July 6, 1981

ACTION/CONCURRENCE/COMMENT DUE BY: NOON JULY 8

SUBJECT: Ottawa Summit

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	<input type="checkbox"/>	<input type="checkbox"/>	JAMES	<input type="checkbox"/>	<input type="checkbox"/>
MEESE	<input type="checkbox"/>	<input checked="" type="checkbox"/>	MURPHY	<input type="checkbox"/>	<input checked="" type="checkbox"/>
BAKER	<input type="checkbox"/>	<input type="checkbox"/>	NOFZIGER	<input type="checkbox"/>	<input type="checkbox"/>
DEAVER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	WILLIAMSON	<input type="checkbox"/>	<input type="checkbox"/>
STOCKMAN	<input type="checkbox"/>	<input type="checkbox"/>	WEIDENBAUM → <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
ALLEN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CANZERI	<input type="checkbox"/>	<input type="checkbox"/>
ANDERSON	<input checked="" type="checkbox"/>	<input type="checkbox"/>	FULLER (For Cabinet)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BRADY	<input type="checkbox"/>	<input type="checkbox"/>	HICKEY	<input type="checkbox"/>	<input type="checkbox"/>
DOLE	<input type="checkbox"/>	<input type="checkbox"/>	HODSOLL	<input checked="" type="checkbox"/>	<input type="checkbox"/>
FIELDING	<input type="checkbox"/>	<input type="checkbox"/>	MC COY	<input type="checkbox"/>	<input type="checkbox"/>
FRIEDERSDORF	<input type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
GARRICK	<input type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
GERGEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	USTR	<input type="checkbox"/>	<input type="checkbox"/>
HARPER	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ROGERS	<input type="checkbox"/>	<input type="checkbox"/>

Remarks: Attached are preliminary rough drafts for the President's Ottawa briefing book. You have seen the related background papers before. These papers are related but different--intended more directly to prepare the President for the presentation of U.S. views. Would you please provide comments--particularly on papers that are more evidently near completion--by noon Wednesday. We will wish to take these into account in preparations for the Thursday Trudeau visit. The next draft of Ottawa Summit Presidential briefing papers will be circulated at the end of the week. Thank you.

Richard G. Darman
Deputy Assistant to the President
and Staff Secretary
(x-2702)

I. OVERVIEW/OBJECTIVES (NSC 1-2 pp.; State 3 pp.)

II. SCENARIO AND SCHEDULE

(A) Major Themes and Relationship to Issues -- With
Emphasis Points

(B) Scenario/Schedule

III. BACKGROUND PAPERS

(A) Multilateral Issues (1-2 pp. on each, plus one page
on background paper)

-- 1) Macroeconomics

-- 2) Trade

-- 3) North-South

-- 4) East-West

-- 5) Energy

- 6) Summary Matrix (7x5)

-- 7) Future Summits (with note on prior summits)

-- 8) Other

a)

b)

c)

(B) Bilateral Issues (with objective/posture and defensive/
offensive points of each side)

-- 1) Canada

-- 2) France

-- 3) FRG

-- 4) Italy

-- 5) Japan

-- 6) UK

-- 7) EC

(C) Points of Special Sensitivity (with defensive points)

-- 1) Interest rates

-- 2) Multilateral aid

-- 3) Trade with East

-- 4) Etc.

I. OVERVIEW/OBJECTIVES

NSC (1-2pp.) (To Be Provided)

State Department (3 pp.) (To Be Provided)

II. Scenario and Schedule

(A) Major Themes and Relationship to Issues

Economic Summitry - The Ottawa Summit is the seventh of these annual meetings which have now been hosted by each of the participants. (President of the European Community is an eighth participant.) President Giscard and Chancellor Schmidt suggested the meetings in 1975 to deal with the effects of the first oil crisis.

Schmidt, the only remaining charter member of the Summit, believes the meetings have been particularly useful in concluding the Tokyo Round of Trade Negotiations in 1979 and generally maintaining an open and expanding international economic system despite oil-induced economic setbacks.

The last three Summits at Bonn, Tokyo and Venice focused on energy and involved negotiations on increasingly specific and detailed items, such as oil import targets and coal production goods.

The Ottawa Summit - Themes and Issues - This Summit is characterized by new personalities (five of the eight participants), general economic stagnation (except Japan), and political uncertainties, especially about U.S. and to a lesser extent French [foreign] policies.

The Venice Summit in 1980 created the expectation that North-South issues and foreign aid would be major themes at Ottawa. Trudeau, the Ottawa host, has stressed these themes and traveled in the past year to Africa, Latin America and Asia. Economic difficulties in the Summit countries and U.S. economic policies since January have shifted more attention to macroeconomic and trade issues, especially interest rates, exchange rates, fiscal policies and protectionism. Strategic considerations led the United States to raise the issue of trade and financial relations with the Soviet Union. Energy issues are less prominent by contrast to recent Summits, but no less important. While considerable consensus and progress have been achieved in energy, vulnerability persists.

Political issues have not been central to previous Summits, although they have always been discussed on the margins of these meetings and were discussed in a separate session at Venice on Afghanistan. Schmidt has indicated that he expects to discuss political issues at Ottawa, especially arms control. Poland is sure to be a central interest. Trudeau and the European Community will raise political aspects of North-South issues, especially in Central America and southern Africa.

U.S. Objective - Given economic difficulties and political uncertainties, the Summit could be contentious and downbeat, reflecting disarray and lack of confidence among the Summit countries. Thus, the United States seeks, above all to:

-- inspire confidence and optimism about the prospects for international economic recovery (bringing to bear internationally what has happened domestically where 46% of the American people believe things will get better, compared to 24% two years ago);

-- affirm a sense of fundamental political unity among the major industrial countries, all of which share democratic political institutions, market economic systems and a belief in human dignity and freedom (stressing thereby that these countries are more than a power alignment or a group of economic competitors);

-- convey a firm and confident strategic view of the basic challenges to the economic and security interests of the industrial democracies, and a sensitivity to the requirement for consultation and cooperation among the industrial countries (making clear that America is leading but cannot progress along).

U.S. Strategy - To achieve these objectives, the United States should:

-- stress the priority of the task of domestic economic recovery which depends primarily on domestic (by implication, not international) policies and is the basis for:

- resisting protectionism and launching new trade initiatives;
- providing more assistance to developing countries;
- reducing dependence on Soviet markets or resources;
- accelerating energy investment and transition from oil to other energy resources.

-- focus attention on the accomplishments and potential of economic systems in the Summit countries (by implication, contrasting them with the communist alternative) and the new determination and confidence of the people (especially in the U.S. and France) to succeed;

format gives too much prominence to the secondary points

-- direct discussion and conclusions to common goals over the next two-three years where agreement exists (lowering inflation, increasing employment and productivity, further liberalizing trade, reestablishing the balance with the Soviet Union, integrating the developing countries into the international system, etc.) as a way to contain short-term disagreement over choice of policy instruments (adjusting interest on exchange rates, imposing restraint measures on trade, timing of arms control discussions, etc.);

-- reassure other countries about U.S. policies toward the Soviet Union and use the fundamental agreement among these countries on East-West security issues (as reflected in Rome NATO meeting and Suzuki visit to the United States) to put economic differences in context and to elevate the significance of restoring economic growth as a basic component of security for these countries;

-- suggest that our flexibility and sensitivity to preserve consensus and unity on East-West issues, including East-West trade, be reciprocated by flexibility on the part of some of the other countries on North-South issues, particularly a willingness not to insist on premature procedural and institutional initiatives, such as the Global Negotiations and expanding World Bank energy lending, when these initiatives are not substantively ripe.

(B) Scenario and Schedule

SCENARIO

Sunday: Reagan Bilateral with Mitterand -- The President should seek to:

-- strike an alliance with Mitterand to ensure that the final communique is optimistic about economic recovery and growth in the industrial countries; Reagan and Mitterand are the two men of vision at this Summit, the one calling for a new beginning and the other for a new deal. They represent a new optimism and confidence on the part of the people to solve the economic problems they face. Reagan can use this alignment with Mitterand to counter the skepticism of other Summit countries;

-- emphasize his concern for unemployment and hence the role of the tax reduction part of his overall economic recovery package. Mitterand's understanding on this point will help to counter suggestions by other Summit countries that the U.S. back off the tax part of its fiscal policy;

-- reassure Mitterand, who may advocate intervention to achieve more stable exchange rates, that the U.S. [will] intervene in exchange markets [when] these markets [become] disorderly;

-- obtain Mitterand's agreement to reach an export credit agreement by the end of this year;

-- stress to Mitterand that U.S. policy in the Third World is aimed at social and economic change, but that none of us can accept a world in which some countries are able to intervene massively in the affairs of other countries without penalty. U.S. policy seeks to protect nonalignment in the developing world so that economic development can be given priority attention, not to threaten nonalignment with a new polarization based on East-West criteria.

Sunday: Reagan Bilateral with Schmidt -- The President should seek to:

-- align with Schmidt on the need to reaffirm the basic political values, institutions and purposes of the Summit countries, stressing that the Summit countries must not be perceived by the outside world as merely a power alignment or a group of economic competitors. Schmidt is the swing leader in terms of broader political and security objectives of the U.S. and is susceptible to the argument that the Summit communique must reflect more than economic agreements or disagreements if it is to be properly understood by the outside world;

would... if
became

-- ask Schmidt to help put conflict over interest rates into perspective, noting that U.S. monetary policy, as the Germans know best, will work in the near future and that the U.S. in any case remains a good partner willing to discuss and review its policies with the Summit countries at any time;

-- stress to Schmidt the extent to which we have remained flexible on East-West issues in general, including trade issues, and urge that he lead the other countries to display similar flexibility on interest rate and North-South issues;

-- secure Schmidt's agreement that the North-South discussion at the Summit should focus on substance and not on procedure or institutional issues, such as Global Negotiations and World Bank energy lending. The U.S. and German positions are close on the substance of North-South relations emphasizing private sector flows as well as aid for the poorer countries. Schmidt sees an opportunity to exploit dissatisfaction in the develop-

ing world with Soviet policy but understands that the industrial country approach must be realistic to be credible and to be consistent with present budget constraints;

-- obtain Schmidt's agreement to resist French or Community proposals to isolate Japan on the trade issue or to put forward a new protectionist proposal.

Sunday: Reagan Statement at the Opening Dinner -- This statement portrays the President as a statesman with a firm and confident view of the world. It strikes the basic themes of optimism, political unity, and cooperation on major economic issues which the President expects this Summit to emphasize.

Monday: Reagan Breakfast Bilateral with Thatcher -- The President should seek to:

-- gain Thatcher's agreement to specific outcomes in the East-West trade area -- high-level COCOM meeting and a possible Western energy security discussion focused on the Yamal pipeline and alternatives;

-- urge Thatcher to stick with us on a realistic approach to North-South issues.

Monday: Morning Plenary Session -- Macroeconomic and trade issues. President pushes themes of optimism, agreement on near-term economic objectives and longer-term trade objectives, which places short-term disagreement on mechanisms into perspective, and confidence which precludes changing policies every other day.

Monday: Afternoon Plenary Session -- North-South and East-West issues. President pursues a trade-off between North-South and East-West issues. He pushes hard on East-West issues in order to back off other Summit countries on North-South issues, accepting as a final position some follow-up discussions on East-West issues (which is our ultimate objective in any case) and insisting that the other Summit countries coordinate in preparations for North-South discussions at Cancun and thereafter.

Monday: Reagan Bilateral with Suzuki -- The President should seek to:

-- encourage Suzuki to support the U.S. on East-West security and trade issues, reassuring Suzuki that the U.S. intends to play an active and cooperative role in North-South affairs;

-- point out to Suzuki that the U.S. and Japan bear special responsibilities, as the two largest importers of oil, to prepare for another short-term oil supply interruption, noting the importance of strategic stocks;

-- reassure Suzuki on U.S. coal and nuclear

SCHEDULE

(No final schedule of bilaterals, etc. has been set. What follows is a suggestion of meetings on which the scenario is presently based.)

Schedule - The President arrives at Montebello on Sunday afternoon. If it is possible, he could schedule two bilaterals on Sunday afternoon before the opening dinner scheduled for 7:30 p.m. The first bilateral could be with Mitterand and the second with Schmidt. In this way he would touch base (immediately with the two key swing leaders at the Summit. He could then schedule a third bilateral at breakfast on Monday morning. The British have requested such a meeting and could be asked to host the breakfast. At the end of the breakfast, Reagan and Thatcher could invite President Thorn of the European Community to join them. In this way, the President could meet briefly with the two Community officials at the Summit, the British who are in the Council chair, and President Thorn who represents the Commission. That leaves the possibility of a bilateral with the Italian Prime Minister sometime Monday afternoon after the plenary session. The last bilateral could be scheduled at breakfast on Tuesday with the Japanese Prime Minister. The President could host this breakfast and in this way demonstrate some special consideration for the Japanese. This might be appreciated by the Japanese, both at home where Suzuki encountered criticism from his last visit with the American President, and at the Summit where the Japanese will be on the defensive on some issues such as trade. Trudeau is the host for the meeting and will have seen the President in Washington on July 10. A separate bilateral with Trudeau would seem to be unnecessary.

The schedule for dinners, luncheons, plenary sessions, etc., at the Summit is as follows:

Sunday, July 19

MONTEBELLO

19:30

Dinner in honor of Heads of State and Government given by the Prime Minister of Canada.

Dinner in honor of the Foreign Ministers given by the Secretary of State for External Affairs of Canada.

Dinner in honor of the Finance Ministers given by the Deputy Prime Minister/Minister of Finance of Canada.

Monday, July 20

MONTEBELLO

- 09:30 First Session of the Summit: Heads of State/Government may meet initially among themselves for a short period followed by a session with ministers present.
- 12:30 Luncheon for Heads of State and Government given by the Prime Minister of Canada.
- Luncheon for Foreign Ministers given by the Secretary of State for External Affairs of Canada.
- Luncheon for Finance Ministers given by the Deputy Prime Minister/Minister of Finance of Canada.
- 14:45 Official Group Photograph
- 15:00 Second Session of the Summit: (with ministers as required and with the possibility of a further limited session among Heads of State/Government.)

OTTAWA

- 17:30 Press briefing by the Prime Minister of Canada in the National Arts Centre Theatre.

MONTEBELLO

- 19:30 Reception for invited guests at the Papineau Manor given by the Prime Minister of Canada.
- 20:30 Dinner in honor of the Heads of State and Government, the President of the Commission of the European Communities and Ministers given by the Prime Minister of Canada.

Tuesday, July 21

MONTEBELLO

- 08:35 - 09:30 Delegations depart for Ottawa by helicopter.

OTTAWA

- 09:00 - 09:55 Delegations arrive in Ottawa.
- 10:00 Third Session of the Summit (East Block).

Tuesday, July 21

OTTAWA

12:30 Luncheon in honor of the Heads of State and
for Government, the President of the Commission
13:00 European Communities and Ministers given by
the Governor General of Canada at his Resi-
dence (Government House).

15:00 Final Session of the Summit (East Block).

17:15 Departures for the National Arts Centre.

17:30 Joint Press Conference by the Heads of
Delegation in the National Arts Centre
Opera.

Delegations depart from Canadian Forces
Base Ottawa (South) later Tuesday or
Wednesday, July 22.

The Prime Minister of Canada will host an
informal reception Tuesday evening for all
members of official delegations remaining in
Ottawa that evening.

III. BACKGROUND PAPERS

(A) Multilateral Issues

Macroeconomic Issues

Objectives

Macroeconomic issues will be the most contentious and thus threaten to subvert the theme of unity at the Summit unless they are handled properly. The United States seeks two specific outcomes:

-- Agreement that whatever is said about the economic situation in the communique or by the Summit leaders when they return home it must be positive. Short-term policy differences should be put into perspective by highlighting agreement on basic objectives -- reduced inflation, increased investment, productivity and employment, and increased efficiency in government and other sectors of the society.

-- Affirmation of international cooperation among the Summit countries premised on the primary role of domestic responsibilities and policies and a sensitivity to the need for continuous explanation and understanding of what each industrial country is seeking to achieve through its policy. The United States should indicate that it is prepared to discuss and explain its policies in any forum at any time, and, would support a series of discussions ^{among} ~~over~~ the various sectors of our societies about the prospects and problems of growth in the 1980s.

Context

As for past Summits, the Chairman of the U.S. Council of Economic Advisers prepared the background document for the macroeconomic discussions. The paper, generally supported by others in the preparatory discussions, concluded that countries need a more medium-term orientation of policies, less "fine-tuning," and greater emphasis on free markets. All agreed that strong anti-inflation policies must be maintained. More recently, however, the French have argued that reducing employment should be a co-equal policy objective -- and led the fight on this issue at the June OECD Ministerial.

The overriding issue in this area is U.S. interest rates, yet the debate reflects a broader lack of understanding and confidence in the Administration's Economic Recovery Program, along with differing political constraints each leader faces in dealing with his or her own domestic situation, making it convenient to blame the United States.

The Europeans and the Japanese see the Economic Recovery Program as a combination of tight money and easy fiscal policy.

-- They attribute the strength of the dollar to our high interest rates, and complain that the corresponding

See
MEMO

depreciation of their currencies has increased import prices and inflation, delaying their own economic recovery and making unemployment painfully high.

- To prevent further depreciation of their currencies, they must increase their interest rates, reducing investment and driving their economies into a prolonged recession.

The basic foreign criticism is that the Economic Recovery Program is placing the entire burden of fighting inflation on monetary policy.

- Tax relief is judged to be inflationary (they take a Keynesian view of the tax cuts).
- The operating procedures of the Fed are considered by many to be unnecessarily destabilizing in terms of interest rates, and this combines with announced U.S. policy not to intervene in exchange rate markets to create fears of instabilities.
- U.S. inflationary momentum is expected to take a long time to dissipate, causing a collision between rising demand for money and more slowing growing supply.

The other Summit participants will applaud the objectives of our Program but will strongly challenge specifics and international side effects.

- In Germany, Schmidt faces growing pressure from the left to adopt expansionary policies to reduce unemployment. The Bundesbank, however, wants to reduce inflation and supports U.S. monetary restraint. Schmidt is caught in the middle and finds U.S. policy a convenient target.
- The French are concerned because a strong dollar and U.S. anti-inflation policies [conflict with Mitterand's desire to increase social transfers, raise the minimum wage, and nationalize key industries.]
- The British publicly support our policies, partly since they resemble Mrs. Thatcher's efforts. But they fear their recovery will be thwarted by slow European growth and high interest rates.
- The Italians complain that their exchange rate depreciation is worsening their already large external deficits, soaring budget deficit (8% of GNP, largest of the Summit countries), and high inflation. But they are unlikely to tighten domestic policy in any event.

make it more difficult to implement Mitterand's program to increase social transfers, raise the minimum wage and create massive new public sector employment.

The level of U.S. interest rates is drawing capital from Japan, causing the yen to fall, thus worsening their inflation performance.

- The Canadian dollar has remained stable. Only recently have the Canadians begun to criticize U.S. interest rates focusing on the effects on LDC borrowing costs.
- The Japanese have reduced interest rates as ours rose. Recently, they too have stated that [a falling yen will worsen their inflation performance.]

Two basic recommendations have emerged from other Summit participants:

- Tighten U.S. fiscal policy (postpone the tax cuts) to reduce financial market pressures and thus lower interest rates; or,
- Cooperative foreign exchange market intervention to prevent unwanted depreciation of European currencies (a recommendation spearheaded by the French).

Key Points to Make

-- The strength of the dollar is not solely a function U.S. interest rates, but also the strong U.S. balance of payments, growing market confidence in the U.S. commitment to anti-inflation policies (and skepticism about European commitments), and worry over political unrest in Europe.

-- The United States does not gain from high interest rates but is also suffering severe pains in key domestic industries affected by high interest rates -- automobiles, homebuilding, the thrifts and small businesses.

-- The Economic Recovery Program is designed to do exactly what they want, to lower U.S. inflation and interest rates while promoting a strong domestic economy which will be needed to absorb European and Japanese exports.

-- The deficit in the U.S. budget is smaller than in many other countries (1% of GNP compared to 4.5% in Germany and 2% in Japan) and we are reducing it further, making additional cuts when expenditures increase as they did in March and April because of higher interest rates.

-- My budget program is proceeding on course in Congress and we are progressively convincing the skeptics that this package will work.

The above points are developed further in special papers at Tab on interest rates, fiscal policy and exchange market intervention.

Trade Issues

Objectives

The United States seeks to contain short-term conflicts over trade, urge adjustments through basic domestic economic recovery measures, and direct attention to longer-term goals for trade discussions in the 1980s in the context of economic expansion.

-- To present and explain our view that the problem of adjustment to changing world trade patterns can best be met by policies which reduce economic rigidities and improve macro-economic performance in our domestic economies.

-- To insist that protectionist policies are unacceptable means of dealing with current economic problems.

-- To seek agreement substantially reducing or eliminating official export credit subsidies by the end of the year.

-- To seek to reaffirm the commitment of Summit participants to full and effective implementation of the Multilateral Trade Negotiations agreements.

-- To reaffirm the U.S. view that agreements must also be reached on issues left unresolved at the close of the MTF, particularly a GATT Safeguards Code.

-- To take the leadership to establish and prepare for another round of trade negotiations in the 1980s, supporting the OECD Van Lennep study, a proposed GATT ministerial meeting in 1982, and raising the possibility of setting a deadline for the beginning of a new round of trade negotiations.

Context

The Japanese prepared the trade background paper for the Summit (suggested by the United States to put the Japanese out front on the trade issue while resisting European pressures to isolate Japan).

The European Community has sought to make Japanese trade policies an issue at the Summit. At its recent meeting in Luxembourg (June 29-20), the European Council "reviewed the Community's relations with Japan and . . . agreed that in Ottawa strong emphasis should be paid to a broad span of questions relating to the smooth function² of the open and multilateral world trading system, including excessive concentration of exports in sensitive sectors." The Council further "stressed the need for effective openness of domestic markets, in particular the Japanese market" and called for the "fullest possible use of (the Community's) bargaining power as an entity." The Europeans are concerned in particular about Japanese automobiles, semi-conductor and electronic consumer exports to Europe.

The European Community, which had a \$20b. trade deficit with the U.S. in 1980 and is plagued by internal disputes over agriculture, fisheries and steel, has also criticized the United States. The Germans are particularly critical of "U.S.-Japan automobile agreement", while the British complain about U.S. natural gas prices and the boost this gives to U.S. exports of synthetic fibers and chemical products to Europe. The Community further complains about the U.S. trigger price mechanism (TPM) which sets a price below which foreign imports of steel face anti-dumping actions.

Multilateral trade issues include unfinished business from the Multilateral Trade Negotiations (MTN), especially the failure thus far to agree to a safeguards code. Such a code would establish common practices for dealing with surges in imports, in the absence of which discriminatory arrangements and an erosion of market-determined international competition have become more common, particularly in Europe. Other issues include:

- The Multi-fiber Agreement where the Europeans are seeking a substantial tightening of market access for developing country exports of textile, apparel and synthetic fibers.
 - An agreement on official export credits which France *(rejects] has thus far blocked.*
- to be consistent with Scenario for Multilateral bilateral:*

The issues most relevant to a new round of trade negotiation in the 1980s include:

- Services is a rapidly expanding area of international trade but one which is still heavily regulated.
- Investment incentives and performance requirements (export performance and minimum local content requirements) often have serious trade distorting effects.

- Developing countries are increasingly important participants in world trade markets and are rapidly developing their export capacity in the area of manufactures. While working to reduce restrictions on the exports of developing countries, the United States will seek to ensure that the more advanced LDCs undertake trade commitments commensurate with their stage of economic development and that the benefits of differential trade treatment are directed increasingly to the poorer LDCs.
- An increasing number of governments are negotiating bilateral arrangements to assure supplies of oil and raw materials, giving rise to a creeping bilateralism which overrides multilateral trade commitments and distorts trade patterns.
- Differences in national antitrust laws with respect to treatment of international restraint agreements give rise to inequalities in standards applied to companies operating in the international market place.

The United States has resisted the tendency to gang up on Japan and maneuvered to have Japan prepare the background paper for the Summit discussions. This compels Japan to meet the criticism it faces but puts it in a constructive rather than defensive role. There may be some value in keeping the Japanese on the point. One way to do this is to pick up on Prime Minister Suzuki's call for a new round of global trade negotiations during his recent tour of European capitals (called the Suzuki Round in the press).

Key Points to Make

- The United States seeks to bolster and expand the commitment of other participants to a more open system of international trade.
- The U.S.-Japan automobile agreement is not a classical protectionist agreement nor does it shift undue burden to other countries (special talking points are at Tab).
- The recent U.S. decision on shoes reflects U.S. determination to limit orderly marketing arrangements to temporary purposes.
- The United States urges the conclusion of a Multi-fiber Arrangement that recognizes the legitimate interests of LDC exporters, an export credit arrangement by the end of this year, and a safeguards code for GATT.
- The United States wonders if it is useful to pick up on Prime Minister Suzuki's call for a new round of trade negotiations in the 1980s and set a date and some tentative goals for these negotiations.

North-South Issues

Objectives

- To ^{reiterate} ~~(protect)~~ U.S. concern for the economic well-being of all countries and especially for the poorer ones.
- To make clear that a revitalization of the productive base of the world economy is necessary to continue to expand the role of public aid and institutions in development.
- To convince others that our aid efforts should focus on the key development problems of food production, population growth and energy.
- To stress that the principal responsibility for development lies in sound domestic economic policies in LDCs as well as industrial countries.
- To note the importance and encourage the role of private trade, investment and finance in development.
- To stress that freedom from outside intervention is the right of every sovereign state and a requirement for political stability and economic progress.
- To postpone a decision on global negotiations and urge a serious approach to any global dialogue with LDCs based on close cooperation among the industrial countries to influence the objective and agenda of this dialogue.
- To resist a premature commitment to expanded lending by the World Bank for energy development, stressing that the Bank has a vital role to play but that additional public financing may not be necessary if Bank reorients programs to facilitate flows of private capital.

Context

The Venice Summit instructed the personal representatives to review and report to the next (Ottawa) Summit on aid policies and procedures and other contributions to the developing countries. The special interest in North-South issues was motivated by the desire to capitalize on LDC dissatisfaction with the Soviet Union, to attract more OPEC money into development, to increase aid commitments, and to launch a new global dialogue between North and South.

Early drafts of the North-South paper adopted a mea culpa approach bemoaning the inability of Summit countries to "do more" for LDCs. In the preparatory discussions, the United States

emphasized a more realistic approach, starting from the serious economic problems in both industrial and developing countries and stressing the substantial role of private sector trade, investment and finance as a complement to official aid. The paper now reflects a general consensus on the relationship of growth and aid and the need to concentrate bilateral aid on food, energy, population and manpower, training; it also contains, however, continuing disagreements on specific issues, such as launching of global negotiations in New York and the endorsement of an expanded World Bank lending program for energy development.

Discussion of aid policies and other relations with LDCs have focused in the past on aid, the role of global institutional reform, and the adverse impact of defense expenditures and security assistance in LDCs (all points stressed by the Brandt Commission report).

Other Summit participants will be pushing for new commitments on aid. We should avoid commitments but note that despite our budgetary constraints, our proposed FY 82 program is 16% higher than FY 81. We favor concentration of limited aid resources in key areas -- food production, population, energy and institutional development and technology transfer and adaptation.

The U.S. believes that while aid remains a vital factor for many of the poor countries, more attention should be given to non-aid measures. Trade, investment and financial flows are many times the magnitude of official aid flows. In 1980 non-oil LDCs exported \$90 billion worth of manufactured goods, earning four times the amount of official aid in that year. Investment flows are still the most efficient means of transfer of technology and management training to LDCs. And commercial banks supplied \$37 billion of loans to LDCs in 1979 or nearly twice the level of official aid flows. The U.S. makes substantial contributions in all of these areas, even though it compares poorly with other donors in terms of aid as a percentage of GNP. The U.S. also contributes on pursuing growth-oriented, non-inflationary domestic policies which lower the costs of U.S. exports to LDCs and expand opportunities for LDC exports to the U.S. (There is a special paper on U.S. contributions in these non-aid areas at Tab .)

The Canadian paper concludes that global negotiations to restructure the world economy are necessary and unavoidable. In 1970 the UN General Assembly called for such negotiations to establish a central forum within the UN system but the developing countries insisted that this forum be given direct authority over the specialized agencies, including the IMF and World Bank. The United States believes that such a forum could affect the specialized institutions adversely and seeks to postpone further consideration of Global negotiations until after the Cancun Summit, hoping through Cancun to reorient the discussion away from these institutional issues toward more substantive issues of trade, investment, and so forth.

The U.S. believes that meeting the security needs of LDCs contributes to development in two important ways: it enhances the prospect of domestic-political stability and it frees resources for economic development. By making a substantial contribution to the security of LDCs, the U.S. makes it possible for other Summit countries to concentrate more on economic assistance.

Other Summit countries see themselves as far more dependent on LDCs for energy, resources and markets than the U.S.; they are therefore more accommodating to the LDCs and favor global negotiations for political reasons with no intention to follow through on substantive issues.

Other Summit countries feel that the new U.S. Administration is indifferent to LDCs and is imposing East-West criteria on North-South relations. They criticize U.S. military assistance and U.S. policy directions to South Africa, Central American, and the Middle East.

Canadian Prime Minister Trudeau is strongly sympathetic to LDC aspirations, as well as committed to a "successful" Ottawa Summit. Trudeau can build prestige both domestically and internationally if he can win concessions from the U.S., such as agreement to resume preparations for Global Negotiations.

French President Mitterand may seek to establish his leftist credentials internationally by taking progressive positions on North-South issues at the Summit, but he will also need to demonstrate his ability to deal constructively with other major Western countries, including the U.S.

Support for U.S. positions, especially on Global Negotiations, has come from the UK and Germany in the past. German positions, however, have recently become more accommodating of LDC demands and the UK is constrained in its support of the U.S. by its participation in the EC of which it will be President from July through December.

Cooperative approaches to Cancun should be welcome to all participants, except Italy. Italy can be expected to complain bitterly as the only Ottawa Summit country not invited to Cancun.

Key Points to Make

-- The United States is encouraged by the substantive consensus reflected in the North-South paper prepared for the Summit, which brings together in an agreed fashion the emphasis on foreign aid and on the importance of world economic recovery and growth. This consensus reaffirms:

-- the critical role of domestic policies in both the industrial and developing countries and the need for commitments and serious sacrifice at this level if international cooperation is to succeed;

-- the dynamic interaction that takes place between a productive world economy and the capability of the world community to provide official assistance for development. Thus a meaningful approach to development requires both economic recovery and a continuing emphasis on aid to the poorest countries. (If pressed, the President should take the offensive and point out America's contribution to development in the trade, investment and commercial lending sectors. The Europeans look as bad in these areas as the U.S. in aid.);

-- concentration of foreign aid on the poorer countries, and on a limited number of sectors such as energy, food, population and technical training. All aid, especially to the poorest, should be aimed at self-sufficiency and tying poor people and poor sectors of the economy into the commercial sector at both the domestic and international levels;

-- Support for the international financial institutions which, however, need to make efficient use of their resources during the present period of austerity.

-- The United States seeks to continue cooperation among the Ottawa, and now Cancun, Summit countries to define the real issues behind such procedural and institutional proposals, ~~as~~ as the Energy Affiliate and Global Negotiations.

-- We recommend that the Bank study how it might use its existing energy program more effectively to leverage more private capital and that the Summit countries continue to evaluate the need for further public financing;

-- We oppose committing ourselves to Global Negotiations now since we cannot agree on the procedural issues in New York and this disagreement can only destroy the chance we have at Cancun to focus on other issues;

-- We urge the Summit countries to make the most of the chance offered by Cancun, to stick together on the original ground rules for this meeting and to commit themselves to coordinate with one another and with moderate developing countries to define objectives and initiatives for global discussions (not negotiations since this refers to the New York stalemate).

East-West Issues

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

~~CONFIDENTIAL~~

The President's Objective on East-West Issues

This is the President's issue. It was added to the Summit agenda at our request. It was not enthusiastically welcomed by the other Summit countries. But it is clearly important in terms of US emphasis on the larger underlying political theme of the Summit, namely industrial country unity in the face of Soviet challenges to Western security. And the fact that other Summit countries view it with skepticism can be turned to our advantage. The President should push hard on this issue in his initial discussions at the Summit and use this pressure to back off the other Summit countries on other issues, such as North-South, which are less agreeable to the US.

At the outset, therefore, the President should press hard for three specific outcomes:

1. recognition that economic cooperation with the East has not produced the benefits envisioned in the early and mid 1970s;
2. agreement that strategic controls under the new security conditions must be tightened and in specific areas, such as technology, expanded;
3. expression of concern about vulnerability to Soviet blackmail through manipulation of dependence, citing the Yamal pipeline as a specific example.

As a fall-back, the President could accept what we seek in the first place, namely agreement on a number of follow-up discussions to pursue tighter controls in strategic areas and confidence-building in other areas:

1. meeting of a high-level COCOM policy group (which has not been done for 25 years), and
2. agreement to enter systematic discussions of Western energy security, including not only protection against vulnerability to Soviet supplies but cooperative development of alternative Western supplies.

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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.

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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.

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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.

Other Leader's Objectives

-- 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.

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Energy Issues

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

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 contrasts 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.

is this addressed anywhere?

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

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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:

another word? - 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

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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- 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]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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