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
243554	PAPER	U.S. NUCLEAR COOPERATION AND NON-PROLIFERATION POLICY	1	6/19/1981	B1
243555	PAPER	INTERNATIONAL ENERGY OUTLOOK	2	6/18/1981	B1
243556	REPORT	ENERGY	11	ND	B1
243557	REPORT	TRADE	19	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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ENERGY

BULLET PAPER ON ENERGY

-- The U.S. is concerned that increased European dependence on Soviet energy resources could offer the Soviets political leverage and weaken western security. European countries should at a minimum not take any decision hastily and should develop a safety net that will reduce their vulnerability to a Soviet cut-off.

-- The U.S. will work in the International Energy Agency to increase readiness to deal with oil supply interruptions. Summit countries should maintain large emergency oil reserves.

-- Faster development of their indigenous energy resources could make developing countries less politically and economically dependent on OPEC. The World Bank has proposed an expansion of its energy lending program, including a separate affiliate. The U.S. has officially indicated that it cannot support an affiliate but still has under study the more general question of expanded energy lending.

-- The U.S. will be a reliable supplier of coal. Port congestion is a short term problem which is being resolved by the private sector. The responsibility for increasing production and trade must be shared by the producing and importing countries. Foreign investment in the coal industry and related infrastructure is welcomed.

-- The U.S. wishes to enhance public confidence in nuclear power, restore our image as a reliable nuclear supplier and find realistic approaches to minimizing proliferation risks.

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6/19/81:x20669 AL 4 B16

Cleared: Treasury:EChase
DOE/IA:RMazaka
EB/IEF/ECC:JFerriter
CEA:MCasse
AL

TALKING POINTS ON ENERGY

-- The current soft oil market provides an opportunity to take serious action to improve our energy security.

-- The United States is committed to cooperation with other countries in dealing with oil supply emergencies. We support the IEA oil sharing system and will maintain the domestic governmental authority we need to meet our commitments under it.

-- Large oil stocks offer the most effective protection against small supply interruptions. We are building up our strategic oil reserves and urge other countries to build up their own oil safety stocks.

-- We do not think that it is feasible to predict in advance what measures should be taken in dealing with any particular small supply emergency. We will participate constructively in the ongoing work in the IEA to improve our preparedness. You have our word should an energy supply problem arise, we will consult closely with you and, if appropriate, take coordinated action.

-- Increased coal trade and use provide an important option for reducing dependence on insecure supplies of imported energy. The Administration's Coal Policy Statement was issued to prevent any misunderstanding of our position on coal.

-- We believe the private sector will do the most efficient job of meeting increased foreign demand for U.S. coal. The United States will not subsidize coal exports but we aim to remove unnecessary regulatory impediments to its production and transportation.

-- We welcome foreign investment in coal infrastructure in the United States and urge foreign buyers to negotiate long-term contracts.

-- The United States will not interfere with commericial coal exports unless compelled to do so by a national emergency.

-- We believe that nuclear power can play a vital role in meeting world energy needs.

-- As part of our recently announced nuclear cooperation and non-proliferation policy, this Administration is taking effective steps to restore our image as a reliable and responsible nuclear supplier.

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-- At the same time, the recent Israeli attack on an Iraqi reactor dramatically illustrates the critical need to prevent the further spread of nuclear explosives and to assure that effective safeguards and export controls are applied to nuclear transfers to sensitive regions.

-- My government will be giving high priority to developing realistic approaches to deal with situations of significant proliferation risk. I hope you will join us in this effort.

-- We are concerned that increased European dependence on Soviet natural gas could make European nations susceptible to Soviet political pressure.

-- We hope that European nations will carefully examine alternatives to Soviet gas. Before purchases are made, an adequate safety net should be developed.

-- Faster development of their energy resources could make developing countries less politically and economically dependent on OPEC.

-- The U.S. supports multilateral energy lending which supplements rather than replaces private capital.

-- The U.S. does not support at this time a separate World Bank affiliate.

-- Our position on the more general question of expanded Bank energy lending is still under review.

Drafted: EB/IEP/ECC:ALarson:dek
6/24/81:x20669 AL 4 B18-19

Cleared: Treasury:EChase (subs)
EB/IEP/ECC:JFerriter
DOE/IA:RMazaka (subs)
CEA:MCasse

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.

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East-West Energy Relations

Our Allies import considerable energy resources -- oil, gas, and coal -- from the Soviet Union. Italy currently depends on Soviet resources for 5 percent of their total energy consumption; the FRG, for 2 percent.

Six European countries (West Germany, France, Italy, the Netherlands, Belgium and Austria) are negotiating terms for the construction, finance and operation of a gas pipeline linking Western Siberia to Western Europe. The British and Japanese hope to provide significant technology and equipment if the pipeline is built. Depending upon U.S. export control policy, U.S. firms could supply pipelayers and compressors.

The pipeline, as initially proposed, would provide our Allies 10 to 30 percent of their national natural gas consumption, representing approximately 5 percent of their total energy requirements. Our concerns about the project center on the growing European energy dependence on the Soviet Union and the potential domestic and international political and strategic benefits to the USSR of its hard currency earnings. Earnings from the pipeline might reach between $5-15 billion annually by 1990, depending upon volumes of exports and gas prices.

Some European leaders vigorously support the pipeline and view it as a means both to reduce dependence on Middle East oil and to offset declines in indigenous gas supplies. They argue that they have no reasonable gas supply alternatives to Soviet gas. Gas deliveries from other suppliers, e.g. Libya, Algeria and Nigeria, may be less reliable than deliveries from the USSR. The pipeline project would also provide large contracts to European export industries. Chancellor Schmidt in particular, has made numerous, strong public statements supporting the project.

The Europeans are trying to develop a "safety net" of emergency supply management procedures which would mitigate the effects of a possible Soviet gas embargo, and thereby limit their vulnerability to Soviet pressure.

We have expressed our concern about the security implications of the pipeline but have not firmly opposed the project. A major U.S. initiative would be required to derail the pipeline project which is at an advanced stage of negotiations. Such an initiative would certainly strain relations with our Allies, especially the FRG.

The NSC is due to discuss East-West energy and the proposed pipeline on June 30.

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BY [illegible] NARA DATE 11/6/2019

Drafted: EB/IEP/ECC:DLowenfeld:jms
6/19/81 Ext. 21052
Cleared: EB/IEP/ECC:JPFerriter
DOE/IA:BKritzer/KMcKeough (draft)
DOD/ISA:SBryon
DOC: (pending)

INTERNATIONAL COOPERATION ON OIL SUPPLY DISRUPTIONS

Oil supply interruptions are a potential threat to the political cohesion and economic well-being of the industrial democracies. Without some form of collective protection, oil vulnerable summit countries such as Italy and Japan and important allies such as Portugal and Turkey will be under severe political pressure to seek accomodations with producing nations to secure their oil supplies. If these nations were to offer economic concessions, sensitive technology or political support to secure oil supplies, this would endanger our efforts to control the spread of nuclear weapons and to achieve Middle East peace.

To counter this threat to our strategic interests, the U.S. took the lead in establishing the International Energy Agency in 1974. The cornerstone of the IEA is an agreement to share oil in the event of a major supply disruption. France has kept out of the IEA, which they initially saw as a confrontational, U.S. dominated organization. Nevertheless, France cooperates closely with the IEA through its membership in the European community.

Sharp oil price increases resulted from the relatively small supply interruption which followed the fall of Shah of Iran. This oil supply interruption was not large enough to trigger the IEA sharing system. Many of our IEA partners have become convinced of the need to cooperate more closely in dealing with such small disruptions.

The U.S. has pressed in the IEA for a commitment to increase minimum oil safety stocks. IEA countries are currently obligated to hold reserves equivalent to 90 days of current imports. The U.S. proposal would increase minimum requirements by about one third by expressing the 90 day requirement in terms of the highest import level since 1977. Most summit countries agree with us that high oil stock levels and greater reliance on market forces will contribute to this objective, but they also want our commitment to consult closely on oil supply problems, consider responses carefully and, if appropriate, take governmental action.

Other summit countries such as Japan and Italy strongly value the commitment of the U.S. to work with them in preventing oil supply disruptions from resulting in sharply higher prices and severe economic damage. The UK and Germany support informal consultation among governments and between government and industry in response to oil supply interruptions. The IEA members will hold high level consultations with industry on July 9 and 10 to consider current emergency procedures. The IEA aims to develop specific proposals by the end of the year.

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DOE/IA:RMazaka
EB/IEP/ECC:JFerriter
CEA:MCasse
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LDC Energy Development

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, which would also incorporate the existing program. A capital structure of $10-15 billion, with 10% paid-in, was suggested.

Last winter Bank management held informal consultations with a group of potential donor and recipient countries on the scope, capital structure, and organization of the proposed affiliate. After careful consideration, the U.S. informed the Bank in February and again at a June Bank Board meeting that it would not support or participate in the proposed energy affiliate. Board discussion of expanded energy lending will resume later in the summer following completion of the U.S. study discussed below.

While opposing the Bank affiliate proposal, the U.S. reserved judgment on the expanded energy lending program itself. An interagency task force is examining the need for and desirability of expanded Bank lending in each major energy sub-sector and the impact that additional Bank lending might have on private sector flows. The Task Force has not concluded its work but is likely to agree that investment in development of LDC energy resources should be stimulated and that the World Bank can play an important role in this. It is also likely to conclude that the Bank can and should carry out this role in a way which catalyzes, not displaces, private capital and that some reorientation of the Bank's activities may be desirable. It does not, however, seem likely that it will be able to reach agreement on whether an expansion of Bank energy lending is needed at this time.

Among Summit countries, only Canada now clearly supports a Bank affiliate. Chancellor Schmidt has indicated that Germany opposes the affiliate. Moreover, the Japanese Finance Minister and UK Treasury officials have informally indicated that their governments will not support it, and the French Foreign Minister has expressed the view that new institutions are not needed. Italy's position is not known. On the other hand, most Summit participants favor an "expanded role" for the Bank in energy development; some favor expanded Bank lending.

OPEC's position is ill-defined. Venezuela has publicly expressed opposition to the affiliate proposal, and several other countries have expressed general support for additional investment in LDC energy development. However, there is no evidence that any are prepared to contribute more than their proportional share of any additional resources for Bank energy lending or that they would prefer an affiliate to the Bank. In fact, Saudi officials (including the Finance Minister) have indicated that increased energy lending, if any, should be carried out by existing institutions rather than a new Bank affiliate.

Drafted by: Barbara Calvert, ICE
566-5071
Cleared by: Ernest Chase, ICE
Robert Blake, IDB
Jon Hartzell, IDP
Charles Schotta, IC
John Ferriter, State
James Moose, DOE
Charles Blitzer, IDCA

SUMMIT COAL ISSUES

Within a free market context and consistent with our belief that coal must play an important role in reducing the industrialized countries' dependence on imported oil and insecure sources of natural gas, our objectives during the coal discussions are fourfold: (1) impress upon our partners that the United States is committed to maintaining a solid international reputation as a reliable supplier of coal; (2) encourage our partners to sign long-term supply contracts; (3) note that the U.S. Government will endeavor to reduce uncertainties and provide a climate of confidence for coal trade, but we will not subsidize coal exports; and (4) press for stronger commitments from countries such as Germany and the United Kingdom to allow free market forces to operate by reducing and eventually eliminating subsidies or other restrictions which discourage increased coal use and trade.

The single most important concern of foreign coal customers is security of supply. This stems in part from a foreign perception of a prior willingness by the U.S. to resort to embargoes, such as soybeans, as instruments of national policy. Our strength as a coal exporter rests not only on our vast resource base, but also on our high degree of political and economic stability. We should, therefore remain sensitive to the security of supply issue and reiterate that the U.S. Government will not interrupt coal exports under contractual agreements unless forced to do so by a national emergency. The President's Coal Policy Statement should reassure importers of the seriousness of our commitment.

Nineteen-eighty was a record year for U.S. coal exports (90 million tons). Accompanying the skyrocketing demand for U.S. coal however, have been severe bottlenecks at major U.S. coal exporting ports. While a real problem, we believe that this is a short-term phenomenon which should be resolved expeditiously by private industry (additional port capacity capable of handling 23 million tons of coal per year is already underway, with a further 160 million tons of capacity in various stages of planning). However, in the absence of assurance of the long-term foreign demand for coal, many proposed projects may not be forthcoming. We should, therefore, press our Summit partners to agree to share in the responsibility by committing themselves to instituting measures which would encourage the signing of long-term supply contracts.

Given the United States resource base and capacity, we are prepared to accept a fair share of the responsibility for increasing production and trade. However, the coal importing Summit countries must also be prepared to take action, in particular, the elimination of subsidies or other restrictions which discourage free market forces and increased coal use and trade. (Note: While recently relaxed, the Germans have a coal import quota. The UK has instituted a "buy-British" policy and maintains subsidies to encourage domestic production.)

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U.S. Domestic Nuclear Power Policy

Nuclear power is an essential part of our basic energy mix. The government supports expansion of the current nuclear power capacity, which now amounts to about 12% of installed U.S. electrical capacity. Means for ameliorating restraints on this expansion, including utility financing and licensing uncertainties, are being developed.

The U.S. Government will seek to reduce licensing and regulatory obstacles to the domestic reprocessing of spent fuel and will look to private industry to provide the capital and entrepreneurial expertise. At the same time, the government is conducting its own development program for the reprocessing of fast breeder reactor fuels.

The Administration supports the development and demonstration of the fast breeder reactor and views the breeder as a key to meeting our energy needs in the post-2000 period.

The U.S. currently has about 71 nuclear reactors in operation which amounts to about 52 thousand megawatts of installed nuclear electric capacity. In addition there are 61 reactors under construction with a capacity of 67 thousand megawatts. By 1990 it is expected that installed nuclear generating capacity will be between 123 and 139 thousand megawatts. This will amount to about 22% of total U.S. electricity generation.

We feel that every domestic energy source must be exploited if we are to reduce our dependence on foreign sources. Nuclear is clearly a source of major importance.

Drafter: OES/NTS:ALSessoms:mw ALS
6/18/81 x29318

Clearance: EB - D Lowenfeld ALS for
DOE/IA - F. McGoldrick ALS for

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ID	*Document Type* / *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
243554	PAPER U.S. NUCLEAR COOPERATION AND NON-PROLIFERATION POLICY	1	6/19/1981	B1

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

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B-1 National security classified information [(b)(1) of the FOIA]
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Drafted: OES/NEP:JSalmon:rab
6/19/81; Ext. 29338

Cleared: OES/N - Mr. Boright
DOE/IA - Mr. McGoldrick (subs)
NSC - Mr. Cass (phone)

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243555	PAPER INTERNATIONAL ENERGY OUTLOOK	2	6/18/1981	B1

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ID	*Document Type* / *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
243556	REPORT ENERGY	11	ND	B1

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TRADE

TRADE BULLET PAPER, TALKING POINTS AND BRIEFER

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Trade
Background Paper
1980s Trade Agenda

An issue which we feel requires immediate solution is that of competition among the major industrial powers in the area of official export credits. Such export subsidies distort trade and are costly to governments. We are seeking an agreement substantially reducing or eliminating these official export credit subsidies by October 31, 1981.

The United States supports the negotiation of an international agreement to succeed the current Multi-Fiber Arrangement. The failure to do so would be unacceptable in terms of the world trading system. Such an agreement should facilitate continued expansion of lesser developed country access to industrial country markets as well as further expansion of access to developing country markets for textiles and apparel. The United States has endorsed continued expansion of developing country access to the world's textile markets, especially for new and small suppliers and the least developed countries, while expressing concern with the new, more complex aspects of market disruption related to the growth in large quotas from our major suppliers.

All summit countries must make every effort to fully and effectively implement the agreements reached during the Multilateral Trade Negotiations and to adhere to the international rules of GATT.

There were a number of issues not adequately dealt with during the Multilateral Trade Negotiations. Prominent among these was the failure to reach agreement on a safeguards code. The absence of commonly accepted practices with respect to injurious surges in imports has resulted in discriminatory trade arrangements. The eventual negotiation of an agreement bringing multilateral discipline to safeguard actions is a goal of U.S. trade policy.

There are a number of long-term trade issues which will form the agenda of U.S. negotiating efforts during the 1980s. In the short run, the United States will deal with individual problems in these areas through bilateral negotiation; in the longer run the United States will seek to negotiate new multilateral disciplines. Priority attention will be focused on trade issues with respect to the following:

Services - Services is a rapidly expanding area of international trade but one which is still heavily regulated. The service sector is of growing economic importance throughout the industrial world. We will work toward future multilateral negotiations to set effective rules and procedures for dealing

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with trade issues in services.

Trade-Related Investment Issues - A number of investment issues distort trade flows just as seriously as do tariffs and non-tariff barriers. Trade-related investment incentives and performance requirements (e.g., export performance and local content requirements) have serious trade-distorting effects. They are becoming widely used by developing countries and even by some developed countries. We will seek negotiations on these issues in the 1980s.

Creeping Bilateralism - Concerns regarding the availability of oil and raw materials have persuaded an increasing number of countries to negotiate potentially trade-distorting bilateral deals. When such arrangements are negotiated by governments and when they override multilateral trade commitments, they pose a serious threat to the international trading system. We will initiate international discussions to limit the potential distortion of trade from such practices.

Competition Policy - Differences in national antitrust laws with respect to the treatment of international restraint agreements give rise to inequalities in the standards applied to companies operating in the world marketplace. We will pursue these problems in international forums including the GATT, in a fashion consistent with competitive principles.

OECD Examination of Major Trade Issues in the 1980s. The OECD ministers in their June, 1981 meeting recognized that the OECD should play an important role in examining the major trade issues of the 1980s. They invited Secretary-General Van Lennep to begin as soon as possible to develop a program of study within the OECD with the view of making a report on the issues by May 1, 1982, for consideration by the ministers.

Trade
Background Paper
1980s Trade Agenda

Drafter: David Walters

Clearances: Mary Chavez, Treasury
Henry Clark, State
Fred Howell, Commerce
Charles Jacobini, State
David Parker, Labor
Kerry Reynolds, Agriculture

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S T E E L

We have had difficult steel trade problems with our major trading partners -- particularly the EC -- since the 1960's but they have become particularly acute since 1977. Mismanagement of steel trade issues could threaten the basis for the conduct of US-EC trade 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 permist the Department of Commerce to respond rapidly if imported steel mill products are sold in the U.S. at less than fair value (dumping) or if injurious increases in steel imports are the result of subsidization or dumping.

Our monitoring of the steel imports for unfair trade practices represents a multilateral understanding with our major trading partners -- Japan, Canada, and the EC on the root causes of steel trade distortions. The TPM is designed to control and prevent unfair trade in steel for a period of up to five years. During this time, the European industry is to undertake a restructuring program for the elimination of inefficient excess capacity. Simultaneously, the US industry will embark on a modernization program to restore its international competitiveness.

The EC Commission has initiated a series of measures to promote the readjustment of the European industry. In the short run, a mix of mandatory and voluntary quotas on production will be implemented. Most importantly, the Commission is proposing the gradual phase out of state aids which has had the effect of propping up inefficient capacity. Progress in the EC has been slower than we would wish and the new French government may present further obstacle to Community unity as these issues.

It is essential to our steel trade policy that the EC formulates and implements as soon as possible measures to reduce state aids. A lack of progress within the EC coupled with increasing and injurious EC steel exports could eventually erode the confidence of the US industry in the TPM. We would come under strong domestic pressure to either confront the EC on subsidization or adopt more restrictive steel trade measures.

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DRAFTED BY:EB/OT/STA:DFinnerty:hh, 6/19/81

CLEARANCES: USTR - CBlum (subs)
EUR/RPE - HClarke
DOC - RSharkey
DOC - JSpetrini

AUTOMOBILES

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 174,000 units, a 6 percent decline from JFY 1980, but a 10 percent increase over the 1980 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 1980 level by more than 10 percent.

Belgium: We believe that Japan has agreed to reduce its 1981 calendar year exports by around 7 percent from the 1980 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 0.6 percent from the same period last year. The number of Japanese-made cars sold here has declined by 0.7 percent. On a seasonally adjusted basis, U.S. auto sales through May were running at a 9.3 million unit annual rate (9.0 million autos were sold in the United States in 1980). 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.

AUTOMOBILES

Drafted by: DOC/ITA/TA: AWarner

Cleared: SFalken, USTR
MChavez, TR
DFinnerty, EB/STA

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TRADE

BACKGROUND PAPER

MULTIFIBER ARRANGEMENT

The Multifiber Arrangement (MFA) which governs international trade in cotton, wool and man-made fiber textiles and apparel expires on December 31, 1981. The MFA is the framework agreement that provides guidelines for the negotiation of bilateral quantitative restraint agreements. The original MFA entered into effect in 1974 and was extended by an interpretative protocol in 1977. The forty-two signatories of the MFA, which account for roughly three-quarters of world textile trade, must agree by the end of this year on the renewal, modification or termination of the MFA. Progress on the renegotiation of the MFA has been slow to date. At the most recent meetings on May 7 and 8 of the GATT Textiles Committee, the forum where the MFA is being renegotiated, most countries put forward preliminary positions.

The developing countries have taken the position of espousing a return to the stricter discipline of the initial 1974 text, the elimination of the 1977 protocol which permitted "reasonable departures" from particular provisions of the MFA, greater liberalization of developed country markets and preferential treatment for new developing country suppliers. The developing countries are concerned by what they view as a steady erosion of the original MFA standards, especially those providing growth and flexibility on bilateral quotas.

The major importers, the United States and the European Community (EC), strongly favor the continuation of a suitable international arrangement under the GATT to govern world trade in textiles. While the EC does not have a negotiating mandate yet (and it is doubtful it will have one by the next scheduled Textiles Committee meetings in mid-July), its preliminary objectives for MFA renewal include lowering the uniform six percent growth rate for all imports, modifying import growth rates to take account of domestic consumption trends, which have been around one percent annually in the EC, and stabilizing imports from major developing country suppliers in order to provide more favorable treatment for least developed country suppliers.

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The United States position, as set forth in our statement at the May Textiles Committee meeting, endorsed continued expansion of developing country access to the world's textile markets, especially for new and small suppliers and the least developed countries, while expressing concern with the new, more complex aspects of market disruption related to the growth in large quotas from our major suppliers. The impact of this growth necessitates tighter agreements with our major bilateral partners to prevent disruption of the U.S. market. We indicated our interest in exploring whether this can be addressed within the framework of the existing MFA, including the 1977 protocol of extension. The next meeting of the GATT Textiles Committee in mid-July will focus on the extension, modification or discontinuance of the 1977 protocol.

Although the renegotiation of the MFA will be long and difficult, it is crucial that it be successful. The consequences of failure are unacceptable to the future of the international trading system. A successful outcome depends importantly upon the continued close cooperation of the Ottawa Summit participating countries, the avoidance of bilateral measures which could complicate MFA renewal and the accommodation of legitimate positions of the exporting developing countries.

Drafter: RRuzicka, USTR

Clearances: Commerce:PO'Day
State:BFurness
Treasury:MBeasley
Labor:FJames

EXPORT CREDITS - BACKGROUND

To promote exports, almost every industrial country offers subsidized financing to foreign countries. The subsidy element in this financing has accelerated in recent years and was estimated in 1980 at over $5.5 billion. These subsidies are wasteful and distort normal, free-market trade patterns. Over time, they undermine the benefits in the natural development of comparative advantage, the loss of which hurts producer and consumer alike.

The United States believes that export credits should be at market interest rates and therefore not subsidized. Subsidies are self-defeating, as they usually are rapidly matched by other countries. They penalize productive companies not receiving such subsidies, with a loss in overall competitiveness and a deadweight loss on national budgets. Moreover, they have the result of giving a favorable exchange rate to the foreign buyer, contrary to the principles of the international monetary system. Furthermore, in a world of flexible exchange rates, the intended benefits of export credit subsidies ultimately are vitiated by offsetting exchange rate movements, while the budgetary costs remain.

The United States has led efforts to reduce export credit subsidies through negotiated reform of an OECD-sponsored agreement that sets minimum allowable interest rates for official export credits. Supported by Japan, Germany, and Canada, we have urged that these minimum interest rates (currently in the range of 7.5 to 8.75 percent) be revised by (1) pegging them to government borrowing costs and (2) automatically adjusting them as borrowing costs change. In the meantime, Eximbank has selectively matched foreign subsidies, in support of U.S. exporters.

France, which offers more export credit subsidies than any other single country ($2.3 billion in 1980), refused to consider more than a token hike of one percent or less in the minimum interest rates set in the OECD agreement. The past French veto prevented the European Community (EC) countries from agreeing to reduce export credit subsidies.

The EC (French) position did not fulfill a commitment in the 1980 Venice Summit communique to agree by December 1980 to bring export credit terms "closer to current market conditions." Secretary Regan and other cabinet officers have raised this issue repeatedly with their foreign counterparts, but with limited success. Congress has urged the Administration (1) to press for reform at the highest levels, (2) to increase the U.S. Eximbank's budget, and (3) to consider some trade action as a means to counter foreign, particularly French, export credit subsidies.

Drafted by: Rodney Bent
OASIA:ITF
566-8241 (Office)
931-3342 (Home)

Cleared by: Robert A. Cornell, Treasury
Scott Monier - EB/State
Bob Lee - Commerce
Lisa Barry - USTR

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