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THE WHITE HOUSE

WASHINGTON

ATTACHMENTS

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE(S) db 11/15/2017

CABINET ADMINISTRATION STAFFING MEMORANDUM

DATE: 8/5/81 NUMBER: 018927CA ~~08127CA~~ DUE BY: --------

SUBJECT: CABINET COUNCIL ON ECONOMIC AFFAIRS -- Meeting, August 6, 1981

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	☐	☐	Baker	✓	☐
Vice President	✓	☐	Deaver	☐	☐
State	✓	☐	Allen	✓	☐
Treasury	✓	☐	Anderson	✓	☐
Defense	☐	✓	Garrick	☐	✓
Attorney General	☐	✓	Darman *(For WH Staffing)*	✓	☐
Interior	☐	✓	Gray	☐	✓
Agriculture	☐	✓	Beal	☐	✓
Commerce	✓	☐	Allen Lenz	✓	☐
Labor	✓	☐	Larry Kudlow	✓	☐
HHS	☐	✓	Roger Porter	✓	☐
HUD	☐	✓	Al Hill		✓
Transportation	✓	☐	George Keyworth		✓
Energy	☐	✓			
Education	☐	✓			
Counsellor	✓	☐			
OMB	✓	☐			
CIA	☐	✓			
UN	☐	✓			
USTR	✓	☐			
CEA	✓	☐			
	☐	☐			
	☐	☐			
	☐	☐			
	☐	☐			

Remarks: The agenda and papers for the Thursday, August 6 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

RETURN TO: Craig L. Fuller
Deputy Assistant to the President
Director,
Office of Cabinet Administration
456-2823

CONTACT: Kenneth Cribb, Jr.
Assistant Director
Office of Cabinet
Administration
446-2800

THE WHITE HOUSE

WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

August 6, 1981

8:45 a.m.

Roosevelt Room

AGENDA

1. Economic and Financial Situation in Poland (CM#114)
2. Cancun Summit (CM#115)
3. International Investment Policy (CM#116)

THE WHITE HOUSE

WASHINGTON

August 5, 1981

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER RBP

SUBJECT: Agenda and Papers for the August 6 Meeting

The agenda and papers for the Thursday, August 6 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The first agenda item is an update on the economic and financial situation in Poland. State and Treasury will jointly present a report on recent developments in the Polish economic and financial situation. A memorandum on the economic situation in Poland and on burden sharing by creditor nations is attached.

The second agenda item is a report on the preparatory meetings for the Cancun Summit scheduled for the third week in October. State and Treasury will jointly present a report on the meetings held last weekend in Cancun. A short paper from Assistant Secretary Leland is attached.

The third agenda item relates to international investment policy. A memorandum from Assistant Secretary Leland who chairs the Council's Working Group on International Investment is attached. His report will focus on the initial stages of the working group's consideration of potential problems of foreign government controlled investments in the United States, the Committee on Foreign Investment in the United States' (CFIUS) review of Elf Aquitaine's takeover of Texasgulf, and recent suggestions for modifying the mandate of the CFIUS.

Attachments

~~CONFIDENTIAL~~

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

August 5, 1981

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: Marc E. Leland

SUBJECT: Polish Financial Situation

Attached for the Cabinet Council's discussion of Poland is a background memorandum on the Polish financial situation along with an attachment on the appropriate U. S. share of financial assistance to Poland.

Attachment

August 4, 1981

POLISH FINANCIAL SITUATION IN 1981 AND 1982

This paper, provides analysis and background for your meeting on Poland. It describes Poland's external financing needs in 1981 and 1982, the pressures on the USG to provide additional assistance, and alternative scenarios for providing such assistance. It must be emphasized however, that the paper does not address the primary and fundamental question of whether the USG should participate in a long-term economic assistance program. Such a decision will, of necessity, require considerably more analysis and discussion of the complex political, economic, security, and budgetary considerations involved. It is important, however, to begin now to explore the issues involved in the question of how the USG would provide additional assistance so that, if the decision is made to move ahead, the ground work has been laid. The timing of assistance to Poland will be crucial; we must make contingency plans now to assure that any future decision can be implemented in time to achieve maximum results.

A paper considering the question of burden sharing in financial assistance to Poland is attached.

Poland's External Financing Needs in 1981

Much of Poland's foreign financing need in 1981 of $11.7 billion has been met by Western creditor groups through rescheduling, credits already granted, or freezing of principal repayments on private bank credits. Financing of $9.5 billion has already been arranged, although all of it has not yet been utilized, especially lines of credit with Western European governments. Many of these are export credit lines that require cash downpayments which the Poles cannot meet. Furthermore, about $1.1 billion of the outstanding $1.6 billion of undrawn European export credits are tied to purchases of capital goods. These credits probably will not be utilized. The U.S., with $731 million, ($585 million in CCC guarantees, $20 million in Ex-Im Bank credit, $71 million Surplus Dairy Products sale and $55 million of PL 480 corn sales)

Classified by R.A. Cornell
Review for Declassification on 7-31-87

is the single largest contributor of official credits so far this year. (The USG also provided $86 million of bridge financing by deferring debt repayments due us for one year.)

The remaining financing gap is in the range of $2.2 billion. Given the already sizable U.S. contribution this year, particularly in view of our relatively smaller financial and economic ties with Poland, the U.S. position has been that the remaining gap should be filled by the Europeans and Soviets.

Neither the Europeans nor the Soviets have shown much enthusiasm for further credits. European performance on credits this year has been particularly disappointing. The major European participants in Polish creditor meetings have pledged slightly less than $1.2 billion.

At the last creditor meeting on Poland June 1-2, France was the only country to offer further credits -- and this offer only amounted to $60 million. We estimate that U.S.S.R. and other CEMA countries provided $700 million in the first quarter of 1981, but hard figures are not available. Evidence is mounting that the U.S.S.R. has been increasing its assistance in kind this year, through growing Polish trade deficits with the Soviets. The Poles claim CEMA has decided against providing further hard currency assistance in 1981.

Our latest information on responses to the Delors proposal to the 16 creditor countries that they cooperate through the BIS to provide short-term credit facilities to the Poles is that only the Swiss have come forward, with an offer of $50 million. France proposes to offer up to $125 million.

Table 1: POLAND'S FINANCING GAP IN 1981

	(billions)
Current Account Deficit	$3.4
Amortization	7.5
Credits Extended	0.2
Short-Term Capital Flight	0.6
Gross Financing Needs	$11.7
Sources of Financing	
Already in Place	
Official Rescheduling (Paris Group)	$2.9
Western Export Credits (including 731 million from U.S.)	1.8
Socialist Assistance (First Quarter)	0.7
Western Financial Credits (U.S. Bridge Financing)	0.1
Subtotal	$5.5

Expected	
Private Rescheduling	$2.4
Undrawn European Export Credits	1.6
Subtotal	$4.0
Financing Gap	$2.2

If Poland does not close the existing financing gap, its ability to import will be limited to the level of hard currency export earnings, as has been the case in recent months. This level of imports may provide adequate food, spare parts and raw materials to keep the economy functioning at current low and near-crisis levels. The more likely result, however, is that the Polish economy will continue its current downtrend during which industrial production has declined by 12.5 percent between January and June 1981. There is no basis for determining how long this decline in output could continue before a crisis emerges, but the decline already has been more precipitous than most observers thought sustainable as little as a year ago.

Poland's Hard Currency Financing Needs in 1982

Assuming Poland succeeds in obtaining the necessary financing in 1981 and in balancing its trade account with the west in 1982 with imports of $7.5 billion, its gross hard currency financing needs will decline by nearly 18 percent to about $9.3 billion. If the official creditors again reschedule 90 percent of the principal and interest due them and the private creditors reschedule 95 percent of principal payments due to them, Poland's 1982 financing gap will be reduced to $2.6 billion.

Any new credits provided Poland without a minimum of three or four years' grace will complicate its financing problems and perhaps its economic recovery. In order simply to eliminate its ongoing need to borrow, Poland will have to have a trade surplus large enough to bring its current account into balance. For example, in 1981 this would require a 53 percent increase in exports. Current projections suggest the Poles might achieve that result only by 1986. Therefore, Poland will have to fill the gap by credits from western official sources and the CEMA countries. It is questionable whether western banks will provide significant additional long term financing until they are convinced Poland is clearly on the road to economic recovery.

Table 2: POLAND'S FINANCING GAP IN 1982

	(billions)
Current Account Deficit	$3.0
Amortization	6.0
Credits extended	0.3
Gross Financing Needs	$9.3

Sources of Financing

Official Rescheduling	$3.8
Private Rescheduling	2.9
Subtotal	$6.7
Financing Gap	$2.6

In summary, Poland's gross hard currency financing needs for 1981 and 1982 are estimated at $20 billion. Subtracting the $12 billion of debt rescheduling relief western creditors are expected to provide Poland will need about $8 billion in new financing during this period. A paper at Tab A considers the question of what should be the appropriate U.S. share of this burden. If a 10, 15 or 20 percent share is chosen the financing assistance provided by the USG should total $800 million, $1.2 billion or $1.6 billion respectively. To date the USG has provided $731 million.

Whatever the amount to be provided it would be counterproductive for the repayment terms not to include a grace period of sufficient length to prevent another debt repayment mountain from developing.

TAB A

"Burden Sharing" in Financial Assistance to Poland

The question of what is the appropriate U.S. share of financial assistance can be considered in terms of the importance of U.S. economic and financial relations with Poland relative to other countries. The attached table provides country shares of those relations for the U.S., fourteen other western creditor countries and some data for the USSR.

The United States has already provided Poland with $731 million in official or officially supported credits, including the recent $55 million in corn sales under PL 450. Total credits to Poland by the western creditor governments so far this year is estimated at $3.4 billion. Of that $1.8 billion has been utilized and $1.6 billion remains undrawn largely because funds are tied to capital goods which Poland no longer plans to purchase.

Out of the total $3.4 billion the U.S. credits of $731 million represent 21.5 percent. This compares with a 10.9 percent U.S. share for total Polish trade as shown in the attached table.

8/4/81

Country Shares

in percent, based on:

	Polish Trade 1978-80			Total Foreign Debt[1] with Market Economies		Government Credits [2]		GNP Weights (OECD 1979)
	Imports	Exports	Total Trade	Outstanding 12/31/80	Maturing 1981-83	Outstanding 12/31/80	Maturing 1981-83	
EEC	57.6	66.4	61.3	59.4	53.6	67.5	53.2	37.5
Belgium	3.1	3.2	3.1	2.3	3.0	1.5	2.1	1.7
Denmark	1.3	4.9	2.9	1.0	0.7	0.3	0.4	1.1
France	10.5	10.3	10.4	13.6	14.2	10.0	16.2	9.0
Germany	19.1	24.8	21.6	23.8	18.6	29.7	16.9	12.0
Italy	6.3	9.2	7.5	5.5	6.0	8.1	4.7	5.0
Netherlands	4.6	3.3	4.0	2.2	2.6	1.8	2.7	2.4
UK	12.7	10.7	11.8	11.0	8.5	16.1	10.2	6.3
Other Europe	22.3	21.3	21.7	15.7	19.4	14.4	18.7	5.7
Austria	9.3	4.8	7.3	9.3	11.6	9.1	12.5	1.1
Finland	0.9	4.1	2.2	0.2	0.2	0.1	0.5	0.6
Norway	1.2	2.1	1.6	0.4	0.5	0.5	0.6	0.8
Sweden	4.7	5.1	4.8	2.6	3.4	2.7	3.4	1.7
Switzerland	6.2	5.2	5.8	3.2	3.7	2.0	1.7	1.5
Canada	3.4	1.6	2.6	3.6	3.8	4.4	4.3	3.5
Japan	4.5	1.4	3.2	4.7	4.3	4.4	3.7	15.9
Total 14 countries	87.9	90.6	88.8	83.5	81.2	90.5	79.8	62.8
U.S.	12.1	9.4	10.9	16.5	18.8	9.5	20.2	37.2
Total 15 countries	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
USSR as % of total 15	95.2	117.9	105.1					21.5

1 Polish Government data.

2 Creditor Government data, except for Austria and Finland which is GOP data.

Columns may not add to totals because of rounding.

ITE: 5/27/81

THE WHITE HOUSE
WASHINGTON

Mike

Someone asked for a briefing paper for the Pres. on the World Bank Energy Affiliate (which we oppose). attached is a memo on this & our reasons for not wanting it.

WGR

THE SECRETARY OF THE TREASURY
WASHINGTON

October 8, 1981

MEMORANDUM FOR THE PRESIDENT

SUBJECT: World Bank Energy Affiliate

It is possible that during the forthcoming Cancun Summit there will be a discussion of a possible World Bank energy affiliate.

Attached is a memorandum outlining its background and description and the reasons why we had our people at the World Bank oppose the affiliate.

DTR

Donald T. Regan

Attachment

OFFICE OF THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

WORLD BANK ENERGY AFFILIATE

Background and Description

Following a request last year by the Venice Summit to consider possibilities for improving and expanding its energy lending program, the World Bank proposed the creation of an energy affiliate as a way to generate additional resources for energy lending. Under this proposal, the Bank's existing energy operations would be transferred to a new institution and would be expanded from the currently programmed $13.8 billion to $30 billion over the FY 82-86 period. If capitalized at $10-15 billion as proposed by the Bank (10 percent paid-in and the rest callable capital), the affiliate would go to capital markets to borrow most of its funds, which in turn would be lent to or guaranteed by LDC governments.

Bank management held informal consultations in February with a group of thirteen countries on the scope, structure, and organization of an affiliate. All except the U.S. were prepared to have Bank management develop a specific proposal for presentation to the Board of Directors.

Later in February the U.S. Executive Director told Bank management and the executive directors of the countries involved in the informal discussions that the U.S. was unable to support the affiliate, as proposed. Nonetheless, the Bank distributed a paper on April 15 calling for negotiations to explore the expansion of Bank energy lending and the creation of an energy affiliate. The Board considered the proposal on June 4 but reached no conclusion.

Among major industrial countries, the affiliate finds its main support from France and Canada. OPEC's position is not clear, although there is little indication that it would contribute resources beyond those required by its current capital position in the Bank. While endorsing the affiliate in principle, Saudi Arabia at least appears to prefer expanded Bank energy lending, perhaps through the IFC, to a new affiliate. Most LDCs favor the affiliate for obvious reasons.

Objections to an Affiliate

1. Establishment of a separate affiliate would by itself, without any additional contributions to the Bank donor from countries, not result in any additional energy lending or energy investment. The idea originated in the Carter Administration in an effort to find a politically-acceptable way to increase World Bank resources.

2. Even notwithstanding our position that no additional resources could be provided for Bank energy lending and that existing resources should be used to increase the "multiplier"

effect on private investment of Bank energy lending, we saw no need for a new institution. Any such proposal would require extensive negotiations among prospective members and specific Congressional approval.

3. We had budgetary concerns stemming from the very large reduction in all expenditures necessary to implement the President's economic program and could not under any circumstances foresee going to Congress for a large new appropriation.

4. We had major concern as to how the proposal would affect Congressional passage of existing MDB budgetary requests, particularly the IBRD and IDA capital replenishments.

5. A basic assumption underlying the Bank's proposal -- and probably its only real rationale -- was that the surplus OPEC countries would support an affiliate by providing more than their proportionate share of the resources, as compared with their share in the World Bank itself. As it turned out, however, none appeared to be prepared to contribute more than their proportional share of any additional resources for Bank energy lending. This was, for example, the situation with Saudi Arabia, which indicated that it preferred increased energy lending, if any, should be carried out by existing institutions rather than a new Bank affiliate.

6. Even if significant OPEC monies could be tapped by an affiliate, the result might not be in the U.S. interest. The OPEC countries would, of course, expect equivalent control and, as proposed, the LDCs would have considerably more power than warranted by their contributions. The resulting institution might, therefore, be dominated by the OPEC and the LDCs.

7. One argument for Bank energy lending -- that it serves as an umbrella against the risk of expropriation -- is more appropriate to the existing Bank structure. The Bank is a privileged creditor with LDC governments because of its continuing involvement in country development programs. It is not clear that such an "umbrella effect" would apply to an affiliate.

8. An affiliate could create some serious disadvantages which would arise from separation of energy lending activities from the normal Bank lending process, stressing as it does the inter-relationship between sectoral lending, e.g., agriculture, highways, energy, etc., and the overall development program of target countries. Experience has shown that excessive concentration on narrow sectoral objectives reduces the overall development effectiveness of the Bank program. This would be particularly acutely felt since so much of the Bank energy lending program is concentrated in electric power projects which, by their nature, are deeply imbedded in regional or national economic plans. Acceptance of the French invitation to locate

the affiliate in Paris would intensify this lack of coordination between strictly energy objectives and development objectives.

GLOSSARY

file: Cancun

ADB/F	Asian Development Bank/Fund
AFDB/F	African Development Bank/Fund
Brandt Commission	An independent high-level commission chaired by former West German Chancellor Willy Brandt which issued a report in March 1980 on international development issues entitled: North-South: A Program for Survival
Concessional Assistance	Development aid with financial terms that yield at least a 25 percent "grant element" (discounted present value of aid net cost compared to some aid on 'market' terms)
DC	Development Committee -- World Bank/IMF Joint Committee which examines development issues.
G-77	A grouping (originally 77 now over 110) of developing countries which adopts and depends unified positions said to represent developing countries' collective interests in multilateral economic negotiations.
GCI	IBRD General Capital Increase
GN	Global Negotiations -- a central body (e.g., under UN auspices) which would -- in some fashion -- hold interrelated negotiations on a wide range of economic issues and emerge with a "package" agreement.
IBRD	International Bank for Reconstruction and Development (World Bank)
IDB/FSO/OC	Inter-American Development Bank/Fund for Special Operations/Ordinary Capital
IFC	International Finance Corporation: one of the institutions of the World Bank group, established in 1956 to promote economic development through the private sector in developing countries.
IFI	International Financial Institution

LDCs	Less Developed Countries: Countries generally eligible for World Bank borrowing.
LLDCs	Least Developed Countries: The poorest developing countries, based on per capita income and other indicators.
MDB/MDI	Multilateral Development Banks/Institutions
ODA	Official Development Assistance: grants or loans from "official" (governmental) sources, at concessional financial terms, for the purpose of promoting economic development.
SAL	Structural Adjustment Lending: IBRD non-project lending designed to support LDC medium-term programs of adjustment and policy reform.
TFCF	DC Task Force on Concessional Flows
TFNCF	DC Task Force on Non-Concessional Flows
TFPFI	DC Task Force on Private Foreign Investment

Explanation of Acronyms

CGIAR	Consultative Group on International Agricultural Research
ECOSOC	UN Economic and Social Council
FAO	Food and Agriculture Organization
GATT	General Agreement on Tariffs and Trade
IEA	International Energy Agency
IFAD	International Fund for Agricultural Development
IWC	International Wheat Council
LLDCs	Least Developed Countries
UN Commission on TNC	United Nations Commission Transnational Corporations
UNCNRSE	United Nations Conference on New and Renewable Sources of Energy
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNFPA	United Nations Fund for Population Activities
UNICSTD	United Nations Intergovern-mental Committee on Science and Technology for Development
UNIDO	United Nations Industrial Development Organization
WFC	World Food Council

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

DECLASSIFIED
Authority State/Trea. Waivers
BY dw NARA DATE 11/15/2019

August 5, 1981

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: MARC E. LELAND

SUBJECT: Cancun Summit: Background for CCEA Discussions on August 6, 1981

The Cancun Summit, co-hosted by Mexican President Lopez Portillo and Austrian Chancellor Kreisky, will involve 22 Heads of State and their Finance and Foreign Ministers from industrialized and developing countries (Annex I). Participants will exchange views on the "future of international cooperation for development and the reactivation of the world economy." The Summit was originally conceived by the Brandt Commission to organize a program of priorities on North-South issues, but was embraced by the co-hosts and other sponsors to provide impetus to the stagnating North-South dialogue.

Last weekend's preparatory meeting of Foreign Ministers dealt with procedural rather than substantive matters. Canadian Minister MacGuigan gave a report on the Ottawa Summit communique, which was perceived as a positive step in relations between developed and developing countries. The meeting confirmed that no substantive decisions will be taken at the Summit, there will be no fixed agenda to channel discussions, and no communique will be issued.

The main area of concern raised by the preparatory meeting, however, is the press release (Annex II) indication that the Summit should "facilitate agreement" on the stalled Global Negotiations (GN) -- a statement drawn from the formal invitation to Heads of State to attend the Summit. While President Reagan's written acceptance directly challenged the GN-Cancun linkage by stating that the Summit should not "take up procedural questions pending in other fora," all participants except the United States felt that Global Negotiations would be an appropriate topic for discussion at Cancun. Although all others also indicated a hope that there would be an agreement on Global Negotiations, not all agreed that it should be the purpose of the meeting. Unless the United States is willing to capitulate and be led into GN, President Reagan will have to be prepared to take a strong stand against GN, or at least maintain total unwillingness to discuss the issue at all until after Cancun.

Classified by Marc E. Leland
☐ Declassify ☒ Review for
Declassification on 87/05/08

~~CONFIDENTIAL~~

In order to avoid the global negotiations, the President will need a plan for a follow-up on the Summit, possibly another meeting of the same group a year or two later in Austria (the country co-hosting the Cancun Summit). It is unlikely that such a proposal would be acceptable as the LDCs at the August 1 meeting stressed the fact that the Summit was in no way to be a substitute for Global Negotiations.

It is clear that there could be no advantage to the United States joining GN as the basic concept is that a central body under United Nations auspices would negotiate on a wide range of economic issues (the same issues that will be discussed at the Summit, i.e., energy, food, trade, development and monetary) and through a process of trade-offs among the substantive areas some sort of package agreements could be reached. There would be almost nothing in the package that would be an advantage to the United States. The issue would be a matter of how much could be taken from the developed world (and particularly the United States) and given to the developing world. Global Negotiations would constitute a bloc-oriented process wherein the LDCs (the so-called G-77 -- now comprising over a hundred nations) would stay together as a bloc whereas the developed nations would not.

If the United States decides to delay its rejection of the GN until after the Summit, it would still have to come up with alternative ideas which would involve showing how all the topics to be discussed in GN could more properly be discussed in other fora. (See Annex III)

At the August 1 meeting there was no indication of the substance of GN other than the statement that it was to be for negotiating a "new international economic order." If the United States is to stay out of GN, it will have to be prepared to show how the negotiations would tend to undermine existing institutions and would be inconsistent with the Reagan policy against increased bureaucracy -- they would create another unwieldy international bureaucracy to perform functions already better performed elsewhere. In addition, GN would accentuate the "North-South" differences and be antithetical to the Administration's preference for dealing with developing countries on an individual or regional basis and addressing concrete problems in an pragmatic manner.

The August 1 meeting did not commit the United States to GN but each statement on the issue (e.g., the Ottawa Communique, the Cancun press release) moves the U.S. closer to commitment.

Before the Summit, there will have to be a firm decision to resist all pressure to be dragged into Global Negotiations or the United States will be forced to accept them. A decision will have to be made that whatever the pressures, it is better to keep out now than to have to walk out after they have begun.

Attachments
  Annex I
  Annex II
  Annex III

Classified by Marc E. Leland
☐ Declassify ☒ Review for
Declassification on 87/05/08

Annex I

List of countries whose Heads of State or of Government are being invited to the International Meeting on Cooperation and Development.

Algeria	Japan
Austria	Mexico
Bangladesh	Nigeria
Brazil	Philippines
Canada	Saudi Arabia
China	Sweden
France	United Kingdom
Federal Republic of Germany	United Republic of Tanzania
Guayana	United States of America
India	Venezuela
Ivory Coast	Yugoslavia

In accordance with the decision of the Second Vienna Consultations of Foreign Ministers on the question of convening an International Meeting on Cooperation and Development, the wish for the participation of the Head of State or of Government of the Soviet Union was conveyed to the Soviet Union.

ANNEX II

IMCD/PM/INF.5
ENGLISH
August 2, 1981

الاجتماع الدولي للتعاون و التنمية
国际合作和发展会议
REUNION INTERNACIONAL SOBRE COOPERACION Y DESARROLLO
REUNION INTERNATIONALE SUR LA COOPERATION ET LE DEVELOPPEMENT
INTERNATIONAL MEETING ON COOPERATION AND DEVELOPMENT

cancún 1981

PREPARATORY MEETING OF MINISTERS OF FOREIGN AFFAIRS
Cancún, 1-2 August, 1981

PRESS RELEASE

PREPARATORY MEETING OF FOREIGN MINISTERS FOR THE CONVENING OF THE INTERNATIONAL MEETING ON COOPERATION AND DEVELOPMENT

1. The Preparatory Meeting of Foreign Ministers for the convening of the International Meeting on Cooperation and Development (IMCD) met at Cancún, Mexico, on the 1st and 2nd of August, 1981. The Preparatory Meeting, co-chaired by Mr. Jorge Castañeda, Secretary of Foreign Affairs of Mexico and Mr. Willibald Pahr, Federal Minister for Foreign Affairs of Austria, was attended by Ministers of Algeria, Austria, Bangladesh, Brazil, Canada, China, France, Federal Republic of Germany, Guyana, India, Ivory Coast, Japan, Mexico, Nigeria, Philippines, Saudi Arabia, Sweden, United Republic of Tanzania, United Kingdom, United States of America, Venezuela and Yugoslavia. (The list of the Heads of Delegation is annexed).

2. The IMCD will be held in Cancún, Mexico, on October 22nd and 23rd, 1981, under the Co-Chairmanship of the President of Mexico, José López Portillo, and the Federal Chancellor of Austria, Bruno Kreisky.

3. In accordance with the letter of invitation addressed to the Heads of State or Government participating in the IMCD, the Preparatory Meeting dealt with the following three questions: evaluation of recent developments in the field of international cooperation for development; definition of the main topics to be considered at the October Meeting, and finalization of preparations for this Meeting.

4. During the discussions, the character of the Meeting as established in the two Vienna consultations and expressed in the letter of invitation, was confirmed. Accordingly, the Meeting will be political in character, conducted in an open and informal atmosphere, not engaging in negotiations but providing an opportunity for an exchange of views on major issues of international cooperation for development.

/...

5. In evaluating recent developments, the current situation regarding the Global Round of Negotiations was assessed; the importance of the conclusions of the Caracas Conference on Economic Cooperation among Developing Countries was highlighted, and a positive appraisal was made of the Ottawa Summit Declaration in regard to relations between developed and developing countries.

6. The Ministers agreed, after extensive discussions, that the Meeting will not work on the basis of a formal agenda, but rather within a discussion framework which would:

- reflect the complexity of the current problems of the world economy as well as the interrelationship among them;

- offer the opportunity for an exchange of views of a general nature on the future of North-South relations, in particular on interdependence and mutuality of interest among developing and developed countries;

- encompass major areas of concern on which to focus discussions; and

- allow for the possibility that participants could address additional questions if they so desire.

The Ministers further agreed that, in conformity with the letter of invitation, while having no formal link with the Global Round of Negotiations, a main objective of the Meeting should be to facilitate agreement with regard to the said Global Round of Negotiations by means of achieving a real meeting of minds and positive political impetus by Heads of State or Government for these and other efforts of international economic cooperation in other fora, without in any way preempting or substituting for them.

Accordingly, they agreed on the following item as the framework for discussions at the Meeting: the future of international cooperation for development and the reactivation of the world economy, including areas such as food security and agricultural development; commodities, trade and industrialization; energy; monetary and financial issues.

7. The Ministers confirmed that the conclusions of the Meeting will be expressed in a summary by the Co-Chairmen.

8. It was agreed that the Secretary General of the United Nations will be invited to the Meeting as a special guest.

9. Agreement was also reached on a number of procedural and organizational questions.

10. The Ministers expressed their gratitude to the Government of Mexico for the warm reception and hospitality provided for the Preparatory Meeting.

Cancún, Mexico, August 2nd, 1981

AGENDA ITEMS FOR GLOBAL NEGOTIATIONS

ANNEX III

AGENDA ITEM	INTERNATIONAL FORUM
1. Raw Materials and Food	
Stabilization of export earnings	IMF
Storage, processing, transportation, marketing, disbribution of commodities and raw materials	FAO, WFC, UNCTAD MDBs, UNDP
Development of natural resources	MDBs
Expansion of food production (Resource transfers, R and D, national strategies)	FAO, IFAD, MDBs, CGIAR, UNDP, etc.
World food security	FAO, WFC, IWC
2. TRADE	
Protectionism, structural adjustment, access to markets	GATT, UNCTAD
Shipping	UNCTAD
3. ENERGY	
Measures to meet energy requirements	MDBs
Conservation	
Exploration, research and development of energy sources	MDBs, UNCNRSE
Supply and demand of energy	
LDC participation in downstream activities	
4. DEVELOPMENT	
Transfer of technology	UNCTAD, UNIDO, UNICSTD, UN Conference on International Code of Conduct on the Transfer of Technology
Promoting industrialization of LDCs (restructuring world industry/positive adjustment)	UNIDO, GATT, UN Regional Commissions

Development of LDC infra-structure	UNIDO, MDBs, UNDP
National demographic policies	ECOSOC, UNFPA
Assist LLDCs to overcome structural problems	UN Conference on LLDCs, IBRD, GATT, UNDP

5. Money and Finance

Financing of balance of payments deficits	IMF, IBRD
Transfer of resources: Concessional (ODA) Non-Concessional (investment, access to capital markets, co-financing)	IMF/IBRD Dev. Committee DC and DC Task Forces, UN Commission on TNC
Debt problems	IMF
International liquidity	IMF
Exchange rate surveillance	IMF
LDC participation in decision-making	IBRD, IMF
Adjustment process and contri-butions of IFIs	IBRD, IMF
Terms and Conditions for use of IMF Resources	IMF
Impact of inflation on growth development	IMF, IBRD
Protection of financial assets (indexing and confiscation)	

Explanation of Acronyms

CGIAR	Consultative Group on International Agricultural Research
ECOSOC	UN Economic and Social Council
FAO	Food and Agriculture Organization
GATT	General Agreement on Tariffs and Trade
IEA	International Energy Agency
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IWC	International Wheat Council
LLDCs	Least Developed Countries
MDBs	Multilateral Development Banks
IBRD	International Bank for Reconstruction and Development (World Bank)
ADB	Asian Development Bank
AfDB	African Development Bank
IDB	Inter-American Development Bank
UN Commission on TNC	United Nations Commission on Transnational Corporations
UNCNRSE	United National Conference on New and Renewable Sources of Energy
UNCTAD	United National Conference on Trade and Development
UNDP	United National Development Program
UNFPA	United Nations Fund for Population Activities
UNICSTD	United Nations Intergovernmental Committee on Science and Technology for Development
UNIDO	United Nations Industrial Development Organization
WFC	World Food Council

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CM#116

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

AUG 4 1981

DECLASSIFIED Authority State Dept. Waiver BY NARA DATE 11/15/2019

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: Marc E. Leland

SUBJECT: International Investment Policy: Report on the CFIUS and the CCEA Working Group on International Investment Policy

There has been a substantial amount of activity in recent months relating to U.S. Government policy on foreign investment. This memorandum reports to the Cabinet Council on Economic Affairs (CCEA) on developments in three areas:

-- the Cabinet Council's Working Group on International Investment Policy;

-- the Committee on Foreign Investment in the United States (CFIUS) review of Elf Aquitaine's takeover of Texasgulf; and

-- suggestions to strengthen the CFIUS.

Working Group on International Investment Policy

The Working Group met for the first time on July 24, 1981, and agreed at that meeting to prepare reports for submission to the CCEA by the end of September, 1981, on two issues:

-- potential problems of foreign government controlled investments in the United States (paper reviewed by the CCEA at July 16, 1981 meeting, see attached list at Tab A); and

-- a survey of national policies and practices relating to foreign investment.

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Classified by Marc E. Leland
Declassify / Review for Declassification on August 4, 1987

CFIUS Review of Elf Aquitaine's Takeover of Texasgulf

The CFIUS is continuing to review the takeover. Elf has now acquired approximately 50 percent of Texasgulf's outstanding shares. Elf will control 87 percent of Texasgulf's outstanding shares when the swap with the Canada Development Corporation (CDC) of Texasgulf's Canadian assets (43 percent of the total) for the 37 percent of Texasgulf's shares held by CDC is completed. Two steps are needed to complete the takeover:

-- the swap with the CDC; and

-- the merger of Texasgulf's U.S. assets into Elf.

Both will take some time.

I have prepared a response to French Ambassador de Laboulaye based on the guidance of the CCEA. In summary, the letter makes three points:

-- The CFIUS is continuing its review despite the French Government's decision not to delay. If that review leads to a negative determination, the U.S. Government may take actions to reverse the takeover.

-- The French Government is requested to confirm that any French company with a 5 percent or greater government ownership which is contemplating an investment in the United States should consult with the CFIUS in advance.

-- The U.S. Government wishes to begin soon bilateral consultations with the Government of France regarding their nationalization and foreign investment policies.

Changes to the CFIUS

Our current problems regarding Canadian investment policies, and the French Government's decision not to intervene in the Elf takeover of Texasgulf, have led to suggestions that the CFIUS should be strengthened. Deputy Secretary of Energy Davis submitted to the CCEA at its last meeting (Thursday, July 30, 1981), a paper for its consideration suggesting that the CFIUS be strengthened and employed by the U.S. Government as a mechanism to retaliate against egregious foreign investment policies (see Tab B). Officials of Texaco Inc. also submitted to the Department of the Treasury a detailed proposal, prepared by their General Counsel, for strengthening the CFIUS (see Tab C). Texaco's target is Canada. Ironically, their model for changing the CFIUS appears to be Canada's Foreign Investment Review Agency (FIRA).

Congressman Rosenthal has also argued in the past, that the CFIUS should be modeled after the FIRA. I'm sure he will repeat that argument at upcoming hearings.

The CCEA needs to evaluate these suggestions to change the CFIUS:

-- A stronger CFIUS would probably be of some benefit in dealing with government controlled investments, such as the Elf take over of Texasgulf. At a minimum, the CCEA might consider imposing stronger requirements and sanctions for advance notification and consultation of this type of investment.

-- On the other hand, any action against private investment could be harmful.

-- Such action might also lead to a negative reaction to our own substantial investments abroad. U.S. investments abroad are almost quadruple foreign investments here, ($193 billion vs. $54 billion). Therefore, the potential liability for the U.S. is much greater.

-- A strengthened CFIUS with powers to restrict private investment would be extremely difficult to control. There could be extreme pressures on the CFIUS from a host of interest groups and the Congress to block foreign investments in the United States.

-- Finally, it's unlikely that retaliation against private foreign investment via a strengthened CFIUS or otherwise would prompt countries to stop their restrictive and discriminatory practices. The Governments of France and Canada, for example, might welcome a restrictive U.S. investment policy that would have the effect of keeping investment capital at home.

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☐ Declassify ☐ Review on [illegible]
Declassification [illegible]

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Tab A

Listing of Potential Problems Arising From Direct Investment in the United States by Foreign Government Controlled Companies

Competition Policy

-- Government supported circumventions of U.S. antitrust and unfair trade laws. Justice USTR Commerce

-- Foreign government control over selected United States exports/imports. USTR Commerce

-- Imposition of rigorous "buy national or home country" requirements on United States subsidiary purchases. USTR Commerce

-- Formation of government cartels. Justice

-- Foreign government manipulation of U.S. production. Foreign operators of the U.S. oil and gas leases may have interests that differ from our own i.e., foreign owners from oil-producing countries might shut in production from U.S. leases to maintain markets for their domestically-produced oil. Energy Commerce

-- Foreign government access to information not available to the private business community could give government-controlled firms a distinct advantage. Justice Treasury

-- Foreign government control of shares of non-strategic minerals could lead to supply or price pressures if these minerals are exported to the home country or elsewhere. Interior Commerce

-- Absolute and/or preferential access to capital not available to private firms. For example are nationalized firms really at arms length with national banks. Treasury State

-- High level political intervention and pressure to block or delay Administration of U.S. antitrust and unfair trade laws. USTR State Treasury

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National Security

-- Investment in downstream energy production (refinery operations) may upset Defense security of supply. Defense Energy

-- Investment in U.S. corporations under contract to produce weapons or equipment for the Department of Defense. Defense

-- Investments in sole-source or few-source suppliers of intermediate or of raw goods to defense industries (strategic minerals). Defense Interior

-- Flexibility of operations under crisis or sub-crisis environments. Defense

-- Strict control of subsidiary operations (e.g. technology, product development, growth) could have national security implications; particularly industries such as specialized synthetic fuels, chemicals, high technology sectors, minerals extraction and processing. Defense Commerce State

-- Extensive control by foreign concerns of U.S. energy service and distribution systems could create special regional security problems, i.e., localized control of gas stations or terminals. Defense Energy Commerce

Tax Policy

-- Policy implications if a foreign government seeks to resolve a tax dispute at a high level bypassing normal channels. Treasury

-- Possible difficulty in obtaining books and records of foreign parent. Treasury

-- Negotiation of competent authority settlements in double taxation cases. Treasury

-- Freedom from taxation of dividends in certain circumstances. Treasury

-- Foreign governments have access to information, available under mutual assistance provisions of tax treaties, which include pricing and other economic data concerning the U.S. competitors of the domestic corporation which it controls. Treasury

-- Difficulty in obtaining data for U.S. tax purposes under mutual assistance provision when foreign corporations controlled by foreign government. Treasury

Disclosure

-- There may be difficulty in obtaining information where such information is held by non-controlled affiliates of the foreign investor or by unrelated foreign entities rather than by the entity required to make a pre-merger filing. Such entities may be beyond U.S. jurisdictional reach. Justice / SEC

-- Problems in discovery by antitrust suit or actions under foreign corrupt practices act or anti-boycott legislation. Justice

Some other problems of disclosure are given in the tax and competition sections.

Political and Legal

-- Difficulty of United States residents suing foreign government-controlled U.S. subsidiaries. Justice

-- Normal legal action by the U.S. federal or state government may trigger action against U.S. investment abroad. USTR Commer State

-- Linkage of political, diplomatic, or military issues with economic issues relating to foreign government-controlled subsidiaries. Treasu State USTR Comme.

--	High level political intervention to influence U.S. legal actions against foreign government owned subsidiary in the U.S.	Treasury State USTR Commerce
--	Possible use of corporate power to influence U.S. policy.	Treasury Commerce

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Declassification on 7/14/87

Tab B

29 July 1981

Comments made at the last Cabinet Trade Policy Committee meeting underscored the problems inherent in depending on existing legislative authority to target U.S. retaliation to the investment policies of offending nations. We need to seek new legislation to overcome these problems and while the legislative process plays out, we need to take steps which signal our concerns. A strengthened Committee on Foreign Investment in the U.S. (CFIUS) could be the vehicle through which we achieve these two objectives.

CFIUS could take immediate steps to review proposed mergers of a foreign investor with a U.S. company on a case by case basis and recommend actions to the President based on current legislative authority. Such reviews could be initiated by CFIUS, by a Federal agency or by a petition from U.S. industry. CFIUS should be expanded to ensure that the total applicable federal expertise is incorporated during these reviews.

Without additional legislation, CFIUS recommendations would be limited but if we launch and announce this step now we would clearly signal our concerns to offending nations. I suggest you give full consideration to assigning CFIUS the task of developing operating procedures and an announcement to activate this proposal.

In addition, CFIUS, which possesses considerable experience and will be gaining more as the new role evolves, should be assigned the task of developing proposed legislation that will provide us the flexibility we need to have the option to target U.S. retaliation to the investment policies of offending nations. Consistent with this, the Mineral Leasing Act of 1920 should be ammended to provide for a flexible response. If Congress provides new authority, the legislative limits on CFIUS could then be removed. Full consideration could then be given to our foreign policy, national security and evonomic concerns before we decide on a course of action. I suggest you give full consideration to assigning this role to CFIUS and to announcing it at an appropriate time.

An increased role for CFIUS could provide a flexible tool that presents a real barrier to foreign investments detrimental to the U.S. and yet would preclude the ramifications of moratoriums which have been proposed in Congress. I look forward to seeing your reactions.

A PROPOSAL FOR A UNITED STATES GOVERNMENT INITIATIVE ON FOREIGN INVESTMENT

It has been proposed that consideration be given by the U.S. Government to the use of the Committee on Foreign Investment in the U.S. (CFIUS) as a means for obtaining modification of Canadian discriminatory energy and investment policies. It was suggested that a new Executive Order be issued expanding and restructuring CFIUS responsibilities and authorities to include the following:

- Foreign investment in U.S. companies of all types, above a threshold level in terms of percent equity or asset value, would be candidates for review, particularly those from countries where "national treatment" of foreign investment is not available to U.S. investors. Prior notice of a proposed investment, accompanied by relevant information, would be filed with CFIUS. No transaction would be completed prior to a CFIUS review, and public offerings for listed stocks would not be permitted prior to release of the review "findings".

- Criteria for CFIUS review would include a positive finding of benefit to the U.S. economy, not simply the absence of a negative impact, and reciprocal treatment of U.S. investment by the country from which the foreign investment comes.

- Public notice in the Federal Register of the pending review and subsequently of the conclusions of the review would be required. Parties at interest would be permitted to file comments and participate in the proceedings as appropriate.

- Findings by CFIUS would be taken into consideration by the SEC, FTC and Department of Justice in their separate reviews.

- Representation on CFIUS would be elevated to higher level officials of the concerned Departments as evidence of increasing U.S. concern over the foreign investment issue.

- A specific time period for completion of the review would be established, for instance 60 to 90 days.

- Data and information requirements concerning foreign investments would be comprehensive and detailed.

Attached is a research paper relating suggestions for strengthening CFIUS to the relevant sections of the Foreign Investment Act of 1974.

7/21/81

REGULATION OF FOREIGN INVESTMENT IN THE UNITED STATES
AUTHORIZED BY THE FOREIGN INVESTMENT STUDY ACT OF 1974

1. Prior notice to CFIUS of proposed investment accompanied by relevant information.

   5(2) and (3) direct Secretary of Commerce to "survey the reasons foreign firms are undertaking direct investment in the U.S." and "the processes and mechanisms through which foreign direct investment flows into the U.S."

   6(1) gives Secretary of Treasury authority to investigate scope of foreign portfolio investment in U.S.

   7(6) gives Secretaries authority to promulgate rules to carry out functions under Act. These rules could delay proposed investment until study completed, otherwise purposes of study would be frustrated.

2. No investment completed prior to CFIUS review.

   7(c) prevents Secretaries from divulging information submitted to them under 7(b) or using it except for analytical or statistical purposes. However, this limitation applies only to information submitted by foreign investor, not to information gathered by experts or submitted at public hearings.

   CFIUS could advise SEC and FTC, and Department of Justice of findings. FTC and Department of Justice could seek court order enjoining anticompetitive investment.

3. Public offerings for listed stocks delayed until CFIUS findings issued.

   7(b) authorizes Secretaries to require all persons subject to U.S. jurisdiction (this would include foreign investors in U.S.) to maintain records and furnish relevant information. However, that authority has expired and must be renewed by legislation.

   SEC has authority to delay by stop order the effectiveness of any registration if registration statement contains any untrue statement of a material fact or omits to state a material fact. SEC should determine that a necessary element in determining whether a registration statement is accurate is findings contained in CFIUS study and that if result of study is unfavorable the result must be disclosed in prospectus.

4. No foreign investment permitted without positive benefit to U.S. economy.

   Underlying basis of study is that extensive foreign investment might be harmful to national economy, but that absent adequate data no assessment of impact could be made. If study reveals dramatic increase in foreign investment without benefit to U.S. economy, legislation would be recommended to halt foreign investment - purpose of study, according to House Report No. 93-1183 is to "help lay the foundation for a national policy concerning foreign investments in the U.S."

5. No foreign investment permitted without reciprocal treatment of U.S. investments in country from which investment comes.

   6(7) directs Secretary of Treasury to compare U.S. laws on foreign portfolio investment with laws of other nations and 6(8) directs him to compare treatment of U.S. investors abroad with U.S. treatment of foreign investors.

6. Public notice of pending review;
7. Public notice of conclusions of review;
8. Public comment permitted

   4 directs securing information from industry and other groups. A logical and efficient way to gather information is to hold public hearings on specific proposed foreign investments, and to publicize results of study.

   5(3) directs Secretary of Commerce to determine the effects of foreign financing methods on American financial markets. Again, best way to make determination is to gather information at public hearings and through written submissions from the public.

   9(a) authorizes Secretaries to hire experts and consultants.

9. SEC, FTC and DOJ to consider CFIUS findings in reviewing foreign acquisitions.

   <u>SEC</u>

   Legislative history (House Report No. 93-1183) indicates that "the subject being studied covers matters that fall under the jurisdiction of other governmental agencies, such as, ...portfolio investment-Securities and Exchange Commission."

5(11) directs Secretary of Commerce to study adequacy of information, disclosure and reporting requirements and procedures.
5(4) directs Secretary of Commerce to determine scope and significance of foreign direct investment in acquisitions and takeovers of existing American enterprises.

Both of these topics are within jurisdiction of SEC and should be considered by them in assessing transactions.

FTC and DOJ

5(4) directs Secretary of Commerce to determine effects of direct investment on domestic business competition. Both of these agencies would be derelict in not considering findings of CFIUS in discharging their duties, particularly if anti-competitive effect found.

House Report anticipates that "the Departments of Commerce and Treasury should consult extensively with the appropriate governmental agencies and departments in both the construction of the survey ... and in the analysis of the data."

10. High level membership or CFIUS.

2 directs Secretary of Treasury and Secretary of Commerce to conduct study. Although they are permitted to delegate authority, they need not do so.

11. Review completed in specific time period.

10 An interim report was to be submitted by CFIUS by October 1975 and a full report was due April 1976. Since Committee is not abolished upon completion of initial study, President could direct them to undertake additional study to be completed within a specified time.

12. CFIUS to compile comprehensive and detailed data.

2 Secretaries of Treasury and Commerce "authorized and directed to conduct a comprehensive, overall study of foreign direct and portfolio investments in the United States".