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Case file Number(s): 018876 (6 of 7)
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WITHDRAWAL SHEET

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
243679	MEMO	DICK ALLEN TO ED MEESE, JIM BAKER, MIKE DEAVER, RE; CANCUN DATELINE: THREE WEEKS TO GO	4	9/28/1981	B1

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

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

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CANCUN ECONOMIC POLICY INITIATIVE

International Food Security

The assurance of adequate and regular food supplies has long been a key goal of the international community. The United States has stressed that the most important element in meeting this goal is an increase in food production in the developing countries. Food aid programs and grains reserve policies are two other major elements in U.S. efforts in meeting this goal.

A point of controversy has been the inability to obtain agreement on a grains reserve policy based on the negotiation of a new Wheat Trade Convention (WTC), which would enhance world food security by setting up an internationl grain reserve system. Negotiations are at an impasse. The present draft is unacceptable to the US for several different reasons. First, the present draft calls for internationally-coordinated, nationally-held reserves and does not take sufficient account of nationally-held, market-responsive reserves. (The European Community and Japan do not object to this provision.) Secondly, the draft provides preferential access to reserves for LDCs and other IWC members in times of market stress. Finally, the draft would make provisions for financial assistance to the LDCs to meet reserves commitments. These latter provisions are broadly unacceptable to many producing countries.

Arguments advanced against U.S. participation in an international reserves arrangement as currently proposed include (a) subjecting U.S. domestic agricultural and trade policies to possible international management and scrutiny; (b) objections in principle to reserves, because they are seen as overhanging the market and depressing prices; (c) raising the possibility that we would set higher support levels; and (d) accounting for variances in the grain supply situation in individual countries.

Nevertheless, there is an argument which strongly supports US participation in an international reserves system. An arrangement which leads other nations to establish grain reserve policies could serve our interests in three ways. First, the US alone has long borne the entire cost of holding grain reserves to meet both domestic and international needs. An international agreement would distribute the costs of grain reserve-holding more equitably, relieving the US of some of the burden. Second, during periods of abundant supplies, countries building grain reserves would purchase added grain from the United States and other exporters. Finally, in periods of tight supply, the existence of reserves could alleviate the concerns of developing countries that they would not be able to obtain adequate food imports.

Our inability to agree to internationally-coordinated (even very loosely coordinated), nationally-held grain reserves in the context of the IWC has led to considerable criticism of the US. Our response has been to urge other countries, especially exporting countries and industrialized countries with centrally-planned economies, to establish national grain reserves without awaiting an international agreement on a grain reserve system. There has been little response to these exhortations. Many nations see little political benefit in bearing the cost of accumulating reserves without the benefit of an international agreement. As signatories to an international agreement, participants would earn the plaudits of the developing countries.

The WTC, however, represents only one approach to the larger problem of the availability of supplies for world food security. Other means exist; for instance, the Food Aid Convention (FAC), the International Emergency Food Reserve (IEFR), and the IMF's special cereals financing facility.

The Food Aid Convention of 1980, commits members to provide greater minimum annual quantities of food to developing countries. Signatories to the Convention have currently pledged 7.76 million metric tons of food aid, which falls short of the target of ten million metric tons annually. The US commitment of 4.47 MMT annually is the largest pledge of food aid. Although the United States and other signatories to the Convention have made repeated calls to the international community for additional pledges, these appeals have not been made within the context of an international forum of both developed and developing nations.

The IEFR is an emergency food aid program operated by the World Food Program. Donor pledges of food aid stocks or funds have never reached the annual target of 500,000 tons, and the World Food Program has been obliged to divert food aid resources from its development programs to meet growing emergency requirements, particularly for refugee relief. Since 1978, the US annual pledge has been 125,000 tons.

Finally, the IMF's food financing facility (part of the Compensatory Financing Facility) is available under certain conditions to countries who experience sudden and temporary surges in the cost of cereal imports.

CANCUN INITIATIVE

Against this background, the U.S. initiative at Cancun would attempt to cast the grains reserve problem against the more general problem of insuring world food security, rather than in the context of a new WTC. A scenario for developing this initiative could be a statement:

-- Recalling the desires of the international community for reserves which advance the goal of adequate and regular food supplies.

-- Acknowledging the impasse in the negotiations for a Wheat Trade Convention and noting that the process of stock building can not wait for a conclusion to the negotiations.

-- Reiterating previous calls for other countries to establish national reserves, and with the objective of increasing world food security, to seek other measures for increasing the availability of supplies for world food security; such as through increased contributions to the Food Aid Convention and the International Emergency Food Reserve.

-- Calling for the international food organizations to address this issue in detail during their upcoming meetings; indicating that if the response is sufficiently forthcoming, the U.S. would consider pledging additional quantities on its own.

Least, more and most-forthcoming alternatives could involve the additional quantities to be made available by the U.S., should others respond appropriately.

PRO:

-- A US initiative to circumvent the current impasse on international grain reserves would underscore the US commitment to improve world food security.

-- This approach would not require us to examine international proposals for consistency with our domestic agricultural and trade policies, nor risk subjecting our agricultural reserve and trading policies to additional international scrutiny or management.

CON:

-- This approach would not result in distributing the reserve-holding burden more equitably unless other countries reverse their unwillingness to hold reserves outside the context of an international agreement.

-- Because most other nations prefer the current IWC draft Convention, this approach will not likely result in immediate agreement by other nations to increase supplies available for world food security.

Drafted by: EB/ORF/FPD:BRFurness
Disc 4 Track 12-14
9/28/81 ext. 23036
Cleared: EB/ORF/OFP:DFHart

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

SEP 29 1981

TO: Robert D. Hormats
Assistant Secretary
Bureau of Economics and Business Affairs
Department of State

FROM: Thomas Hammer Thomas A. Hammer
Acting Under Secretary for International Affairs and Commodity Programs

SUBJECT: Suggested Ways to Encourage Other Countries to Develop Grain Reserves Policies

Following your meeting on Friday, our people have developed the following suggestions to encourage other countries to establish grain reserves. As you will note at the end, we still remain strongly opposed to the internationally-coordinated system of nationally-held reserves.

Attachment

Suggestions to Encourage Other Countries to Establish Grain Reserves

- Continue to extoll the leadership role that the United States has played in world food security - i.e. our agricultural policies directed in expanding agricultural production and exports; our open market system that gives foreign buyers equal access to U.S. grain on a par with domestic users; a marketing system responsive to rapidly changing world market conditions under which farmers make the major decisions; our reserves policy that is designed to meet both domestic objectives and international needs; bilateral and multilateral assistance to encourage increased food production in food-deficit low-income countries; and the maintenance of food aid shipments under PL 480, including a 4 million ton food security wheat reserve as a backstop.

- Stress that the world community should focus its attention on those other exporting and developed importing countries that still today do not have reserves policies, but depend on annual production to regulate their trade, even at times through export subsidies. Explain that we are willing to work with these industrial countries to address world food security issues.

- World food security should not continue to be perceived as primarily dependent on the level of world food grain stocks. Stocks or reserves have been too narrowly defined; for example, the enormous amounts of grain fed to cattle may become available for humans at certain price levels.

- In order to focus attention on the need for national reserves policies, instruct the International Wheat Council to conduct a review of member countries' reserves policies from the standpoint of world food security.

- To assist the developing countries to formulate reserves policies, establish under the framework of the International Wheat Council, an assistance evaluation committee that would channel both bilateral and multilateral assistance towards those ends.

- Within the framework of the Food Aid Convention, encourage other donor countries to develop food security wheat reserves similar to the United States' 4 million ton reserve to backstop food aid commitments.

NOTE: The USDA remains adamantly opposed to any international system of nationally-held reserves, since it feels that it is up to individual countries to establish their own reserves policies. The USDA feels that the international financial organizations should give priority to helping developing countries in establishing reserves.

9/28/81

1448G

Cancun Economic Policy Options: Investment *

(It should be noted that these options are additive, rather than mutually exclusive. All three options could be selected as initiatives.)

A. Most Forthcoming: Initiate Structural Changes

The most forthcoming approach would stress positive and useful structural changes within the institutions. The World Bank would develop charter amendments to encourage the use of partial guarantees;* prepare an investment insurance scheme directly related to its projects; and tie its country allocation process to the existence of a favorable investment climate. The IFC would expand the use of its Mexican mutual fund model which encourages foreign investors to purchase non-voting shares in Mexican companies; develop an equitv trust proposal to sell off some of its higher-quality equity investments to public and/or private foreign investors; and significantly expand staffing and project levels.

Pros

-- would have greatest long-term impact on stimulating direct investment.

-- would be most emphatic demonstration of Administration's emphasis on private flows.

Cons

-- would require legislative approvals, involving delays.

-- would involve greater risk to institutions involved (e.g., the cost and feasibility of rapid IFC staff expansion).

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* Since Hormats' topic includes the World Bank which has little scope for encouraging direct investment, the term "investment" is herein interpreted broadly to include cofinancing. Co-financing measures are indicated by an asterisk.

B. Middle: Focus on LDC Policy Measures

The middle approach would seriously address obstacles within the LDCs themselves to foreign and domestic investment. The World Bank would exercise greater policy leverage to improve the domestic investment climate and the domestic savings rate in LDCs; strengthen its cross-default clauses for cofinancing; * and graduate higher income borrowers from the IBRD, with greater utilization in those countries of IFC resources and its associated private financing sources. The IFC would also strengthen its cross-default clauses; * tie its country activities directly to the existence of a favorable investment climate by selectively expanding efforts in those countries and going slow with programs in unfavorable countries such as Tanzania; and attaching many more "market features" and divestiture requirements to lending to enterprises in which the public sector is a participant.

Pros

-- would address "core" policy problem directly.

-- could relatively rapidly free scarce resources for most effective use.

Cons

-- would be likely to encounter resistance from affected LDCs and, to a lesser degree, from some World Bank officials.

-- could subject the United States to charges of manipulating the World Bank and politicizing the institutions.

C. Least Forthcoming: Expand Existing Activities

The least forthcoming approach would focus on expanding existing activities and tightening current policies. In the World Bank, this would involve expanding cofinancing programs, through proposals such as those discussed in the Development Committee Task Force on Non-concessional Flows; * shifting the sector allocation process away from BHN activities toward infrastructure and industrial development, and enforcing a tougher expropriation policy. The IFC would accelerate current program trends toward a larger equity investment program, increased emphasis on minerals, manufacturing and energy projects, and more extensive capital market development activities.

Pros

-- should generate additional private flows for development with minimal exercise of U.S. influence and little institutional change.

-- would be fully consistent with Administration's economic growth philoscphy and would signal private sector that MDB support for their activities would be more direct.

Cons

-- would have little short-term impact.

-- would not alter existing MDB institutional structural and/or LDC domestic policy constraints to increased investment.

cc: J. Hartzell
F. Maresca
R. Baker
C. Ouellette
J. Wallar

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OUTLINE OF PRESIDENT'S SPEECH ON DEVELOPMENT

I. U.S. Context, Experience and Development

A. U.S. capacity to identify with the ideal(s) of development. U.S. itself was both an underdeveloped country and a revolutionary society -- and remains true to its finest traditions as a champion of liberty and opportunity for all.

B. U.S. capacity for compassionate action. U.S. is unsurpassed in its record as a haven for the "poor ... huddled masses yearning to breathe free ... the homeless (and) tempest-tossed ..." -- and as a contributer of financial aid and technical assistance to other countries in need.

C. U.S. capacity to serve as a useful example for successful development. Idealistic rhetoric A. and charity B. are not enough. Self-sufficiency is the goal. And our experience and success suggest that this requires:

1. a favorable climate for investment;

2. access to markets with potential growth;

3. technical assistance;

4. fair opportunities and incentives for work; and

5. action programs tailored to the potential and constraints of the local/regional environment.

These are what allowed the U.S. to develop ("from the uncharted territory Columbus found ... " if speech is on Columbus Day) ... And these are what a program for others' successful development must be rooted in.

II. U.S. Approach to World Development

A. The key role of domestic policies. Putting our domestic houses in order is the first order of business. Without this step, there is no basis for effective international cooperation.

B. The achievements of the postwar international economic system. The system works, as evidenced by recent World Bank studies, and no one has gained more in the last decade than developing countries themselves.

C. U.S. approach to self-sufficient development through appropriate institutions emphasizing practical orientation toward trade, investment and foreign (especially technical) assistance. It is this practical orientation that must prevail over unproductive rhetorical exercises or grandly idealistic schemes.

-- to expand markets for products from developing countries:

  o through GATT ministerial (1982) and subsequent trade talks, seek reduction of discrimination against LDC products via:

    -- adoption of a general and liberal "safeguards" code;

    -- gradual reduction of certain categories of coverage under MFA (perhaps); and

    -- gradual dismantling of developed-country subsidies of certain tropical agricultural products (Note: requires attention to domestic sensitivities);

  o commit to implement safeguards code under GATT;

  o commit now to seek legislation to extend the Generalized System of Preferences (GSP -- which expires in '85), and express willingness to expand GSP coverage;

  o in MFA negotiations, seek to maintain overall 6% growth rate while redirecting benefits from "big three" (Taiwan, Hong Kong, South Korea) to smaller and newer developing country suppliers.

-- to improve the investment climate:

  o propose new "International Investment Insurance Agency" (multi-lateral, building on U.S. experience with unilateral OPIC);

  o support increased World Bank and IFC activity as catalysts of co-financing arrangements in developing countries (perhaps offer U.S. proposal);

  o negotiate special bilateral tax and investment policy agreements (trading improved investment protection arrangements for honoring developing country tax holiday/sparing arrangements under U.S. law).

-- to promote and provide foreign, especially technical, assistance:

- o (Note that most effective technology transfer is through private investment and associated technical transfers and training; hence, improving investment climate (as above) is most important key to technical assistance.) But in addition ...;

- o refocus AID resources to give greater emphasis to the development of practical and sustainable productive enterprise in developing countries;

- o encourage the American private sector to become more involved in technical assistance in developing countries (as a market development strategy, not simply *pro bono*);

- o develop a new or enhanced (Peace Corps)-type program to send technically qualified Americans abroad as part of technical assistance teams;

- o give greater emphasis to the training of people from developing countries;

- o target programs to encourage energy production in developing countries, both conventional and renewable sources.

-- to develop practical programs appropriately tailored to the local and regional environment.

- o cooperate with other governments and the private sector in the development of workable regional action programs -- such as the one we (with others) have initiated for the Caribbean Basin;

- o reject the artificial and simplistic division of the world into "North-South," and reject naive one-world images -- while emphasizing the diverse and pluralistic character of the 150-plus nations of the world and the need to give greater attention to opportunities for problem-solving on a regional scale;

- o seek to develop other such regional action programs with interested countries and investors for other regions;

o (Optional: reduce participation in unproductive and distractive rhetorical exercises that suffer from either excessive ideological polarization or excessively global ambition -- concentrate on activities likely to produce meaningful results.)

Incentives under Bilateral Tax Agreements for Investment in Developing Countries

U.S. tax treaties with developing countries can include investment incentives. Such benefits should be provided only by treaty because: (1) the incentive can be targeted to particular countries where it is likely to be most effective and where it conforms to overall U.S. foreign policy objectives; (2) it can be targeted to certain industries which are important to the development of the partner; (3) the U.S. would be able to receive reciprocal consessions, particularly exchange of information; and (4) the greater incentive thereby created for developing countries to enter into treaties with the U.S. would further enhance the ability of these countries to attract U.S. investment.

<u>Last Forthcoming Alternative: Tax Sparing Credits Only for Reduction under the Treaty in Treaty Partner Taxes</u>

If the treaty partner reduces by treaty its statutory withholding tax on dividends, interest and royalties paid to U.S. investors, the U.S. would allow a foreign tax credit for the full statutory tax.

<u>Pro</u>:

-- It will benefit U.S. investors and encourage investment.

-- Developing countries would probably agree to greater treaty reductions in their statutory withholding rates.

-- Because it is more limited than full tax sparing, it would probably engender less opposition.

<u>Con</u>:

-- It would violate the policy of not giving U.S. treaty benefits to U.S. citizens and residents.

-- It will encourage repatriation.

-- The impact will be uneven, depending on the partner's level of statutory withholding rates.

-- It will provide windfall benefits to those who would have receive the income in any event.

-- The Senate would be likely to object.

Moderately Forthcoming Alternative: Investment Tax Credit

A 10 percent investment tax credit would be extended to investment (and reinvestment) in developing countries.

Pro:

-- Most developing countries would consider this a satisfactory alternative to tax sparing.

-- It would afford an immediate benefit to U.S. investors, whether or not the venture proved profitable.

-- It would be a move toward capital export neutrality.

-- It would not encourage repatriation and, if structured to cover reinvestment, would encourage retention.

-- It would permit a broadening of the U.S. treaty network with developing countries.

-- The U.S. would retain control over the incentive.

Con:

-- It would violate the purpose of the domestic credit -- to encourage investment in the United States.

-- It would give U.S. treaty benefits to U.S. persons.

-- It would be uneven in impact, giving greater benefit to capital intensive investments, which are, typically, not those most needed by developing countries.

-- It has previously been rejected by the Senate.

Most Forthcoming Alternative: Tax Sparing Credits for Developing Country Tax Holidays

A U.S. foreign tax credit would be granted to U.S. investors not only for taxes actually paid to the developing country, but also for the taxes which would have been paid but which were "spared" under tax holiday incentive laws in the developing country.

Pro:

-- Developing countries consider this very important.

-- It would attract some additional U.S. investment.

-- It would permit a broadening of the U.S. network of treaties with developing countries.

Con:

-- The assertion that tax sparing is needed to avoid neutralization of developing country tax holidays by the U.S. foreign tax credit is an over-simplification. Provisions of U.S. tax law, particularly deferral and the overall foreign tax credit limitation, offset much of the neutralizing effect.

-- It would give U.S. tax benefits to U.S. persons.

-- It would move away from capital export neutrality.

-- The partner's tax policies control, not the U.S.

-- It would be uneven in impact. Countries with high tax rates but generous tax holidays would benefit; those with low rates and no tax holidays would not.

-- It would encourage rapid repatriation.

-- Investors who would have invested anyway would receive windfall benefits.

-- It has previously been rejected by the Senate.

TALKING POINTS ON CANCUN TRADE OPTIONS

I. The U.S. objective in the trade discussions at Cancun should be (1) to demonstrate the leadership role that the U.S. plays in liberalizing the international trading system, (2) to push North-South discussions on trade in the direction of pragmatic steps to strengthen the GATT system in ways that encourage the further adoption of market-oriented, outward-looking policies by developed and developing countries.

II. The U.S. has an excellent record of providing market access to the exports of developing countries. We should not hesitate to point out that record. For example:

- In 1980, 51 percent of U.S. imports from the developing countries entered duty-free.

- Our GSP program is the most open and responsive of all the donors' programs. GSP duty-free imports have increased three-fold since 1976 and are expected to reach $9 billion in 1981.

- The U.S. absorbs half of all the manufactured goods that are shipped to the industrialized countries from LDCs.

- In the past two years alone, the non-OPEC LDCs earned more from exports to the U.S. ($114.5 billion) than the entire Third World has received from the World Bank in 36 years.

III. A strengthening of the GATT, including its continued adaptation to the growing participation of developing countries in international trade, is the most meaningful action that can be taken on behalf of LDC trade in the early 1980s.

- The establishment of a strong discipline on safeguard actions would provide major, concrete encouragement to LDCs that outward-looking trade policies will not be undermined by arbitrary protectionist actions by developed countries. The U.S. position on safeguards is closer to the LDC position than are the positions of other developed countries. We should push on this at Cancun.

- Further liberalization of industrial nations' trade regimes is most likely to be achieved in the context of reciprocal, multilateral negotiations within GATT.

- Increased South-South trade depends upon further trade liberalization by developing countries, especially the advanced developing countries. The GATT provides an opportunity for such LDC trade liberalization in developed countries, thereby increasing the incentives for both groups to liberalize.

- The proposed GATT Ministerial offers an excellent opportunity in the immediate future to promote system-strengthening steps of special interest to developing countries (e.g., safeguards). The U.S. could seize the initiative at Cancun by proposing that free and open trade be the focus of the GATT Ministerial and by announcing that the U.S. will launch an extensive round of consultations with all countries, including developing countries, in preparation for the Ministerial's agenda.

- The U.S. could assert its leadership role even more vigorously at Cancun by announcing that the Administration will support the extension of GSP in some form beyond its scheduled termination date in 1985.

- Ability to deliver on our commitments is essential to maintaining our credibility on trade leadership. For this reason, it would be very dangerous to make commitments at Cancun on issues having extremely high domestic political sensitivity which might prove impossible to fulfill. Significant changes in the MFA, for example, would conflict with President Reagan's campaign pledge not to relax the existing degree of protection on textiles.

- Trade's contribution to development can be intensified by complementary private investment, development assistance and technology sharing. At Cancun we should point out that we are prepared to cooperate with other developed nations and with developing countries in such an integrated approach. In fact, we already have begun such an effort in the Caribbean region.

IV. Pro and Con of Suggested Approach

Pro:

- The approach offers pragmatic initiatives that are in the economic interests of both developing countries and developed countries.

- The Administration can fulfill these commitments at an acceptable domestic political cost.

- The proposed GATT Ministerial provides a relatively short time-frame within which the LDCs can judge the responsiveness of the developed countries.

Con:

- The developing country bloc is skeptical about the GATT's responsiveness to LDC trade concerns.

- The nature of the proposed trade initiatives does not lend itself to quantifying the additional resources that the LDCs will earn as a result of strengthening the GATT.

MULTILATERAL INVESTMENT INSURANCE ARRANGEMENTS

Overview:

A major constraint to the flow of direct investment to the LDC's is investor perception of higher political risk in these countries. Political risk insurance currently available from public and private sources is insufficient to support adequate flows of investment to the developing world, especially for high-risk, high-cost energy and minerals exploration projects. A multilateral insurance arrangement drawing together the resources of developed and perhaps developing countries could provide a mechanism to help meet these needs.

Pros:

-- Risk on major projects could be spread so that high value projects could be covered more easily.

-- Capital-exporting countries could act mutilaterally in cases of expropriation, raising the inherent cost of hostile action against the property of citizens of any one state.

Cons :

-- LDCs have been reluctant to support past multilateral insurance proposals, which could reduce their leverage in dealing with developed countries or limit their control over foreign enterprise. Some leaders of the G-77 opposed arbitration obligations or other limits to national sovereignty.

-- Western European countries were uninterested in past schemes as well, preferring to exert greater control through national programs which can be tailored more closely to the pursuit of their own domestic objectives. (Europeans also tend to view such programs as benefiting us more than them, especially in Latin America, where the bulk of foreign investors are U.S.)

-- Previous plans were dropped when participants were unable to agree on: dispute settlement and arbitration mechanisms; financial obligation (including at least a token contribution from the LDCs); control mechanisms (weighted versus non-weighted voting rights). Any new program would also have to deal with these issues.

Most Forthcoming Alternative: A multilateral insurance arrangement within the framework of the World Bank or International Finance Corporation (IFC).

World Bank President William Clausen has already privately expressed his interest in launching a multilateral insurance program within the World Bank. However, strong U.S. support would be needed to begin such a program. We would prefer an insurance mechanism established through the IFC, similar to the International Investment Insurance Agency (IIIA) advanced on a number of occasions by the U.S. between 1961 and 1972. (The IIIA would have been a new international agency which insured private developmental investment in member LDCs against specific political risks and reinsured investment insurance contracts made under domestic programs such as OPIC.)

Pros:

-- Would create a large insurer capable of providing low-cost insurance against political risk and loan guarantees for major investments.

-- IIIA would be fiscally sound and credible to investors.

-- The framework for consultation is already in place, and general principles have been set out in the IFC Charter.

-- It would be a multilateral program with a link to the IFC, which should deter expropriation.

-- The program could possibly be put in place without additional funding. The IFC already has a guarantee program; changes in reserve ratio requirements could permit the IFC to leverage existing funds to support many more projects through insurance rather than direct loans.

Cons:

-- The IFC's Charter does not specifically allow or prohibit it to issue insurance. A Charter amendment would be needed to permit the IFC to issue insurance on reasonable terms.

-- The LDCs will have the same objections they had to previous IIIA proposals. The prospects for a successful negotiation are thus not good.

-- LDCs oppose the involvement of a major multilateral lending agency. They fear that a World Bank-linked mechanism would have additional leverage, since the Bank must look at a country's expropriation record before approving new loans.

-- We would have limitd control over the design of an IFC proposal.

-- A sound facility would require reserves, funded in all probability by paid-in capital. The USG might have problems if we had to seek an appropriation.

<u>Moderately Forthcoming Option</u>: A U.S.-led, developed country multilateral initiative.

The U.S. could propose a multilateral insurance program within an existing developed country mechanism such as the Direct Assistance Committee of the OECD, similar to the International Investment Reinsurance Agency (IIRA), a plan raised in the Investment Insurance Committee of the Berne Union in the mid-70's. The group would provide reinsurance on political risk coverage; risk would be shared among countries in proportion to their contribution to the insurance pool.

<u>Pros</u>:

-- LDC approval is not needed to implement the program.

-- Greater national control is retained over insurance issued.

<u>Cons</u>:

-- Such a mechanism would probably not draw in non-Western (e.g., OPEC) participants.

-- Previously, Western Europeans have been unenthusiastic.

<u>Least Forthcoming Alternative</u>: Greater U.S. public-private sector insurance cooperation.

The Overseas Private Investment Corporation (OPIC) could work more closely with private sector insurance companies on a project-by-project or regional basis. Private insurers are increasingly interested in entering the political risk field, and could benefit from OPIC experience and cooperation.

<u>Pros</u>:

-- The program would be easy to implement, and would in fact only expand current OPIC efforts.

-- This program would re-emphasize our commitment to the private sector, and help interested private sector insurers to expand their activities in the political risk field.

<u>Cons</u>:

-- There would be little expansion of coverage available. Private sector firms could not be expected to accept too large a portion of the total risk.

-- There would be only limited psychological impact from announcing such a program.

-- Limitations which keep OPIC from insuring projects (e.g., country exposure limits, employment-impact, Calvo clause) would also limit joint activities.

9/29/81
2:30 pm

MEETING RE: CANCUN PREPARATIONS

AGENDA

(1) Substantive elements of Reagan Approach to Development

-- Overview/Status (Darman/Fuller)

-- Trade (STR) — more coming in the way of options — use CCCT to review options

-- Investment (Treasury) — put me to have — bilateral tax treaties

-- Technical Assistance and Regional Cooperation (State) - sugar - food - energy — AID - science & technology (MKD)

-- Next steps: Cabinet Council review/ Presidential decisions

(2) Procedural Issue: What posture re "Global Negotations" (see options)

JK - don't take rap for scuttling global negotiations
— why does US need to come into GN/

(3) Scheduling Matters

-- What position rel. 10 a.m. Saturday press event at Cancun?

-- Bi-laterals at Cancun (See Tyson proposal)

-- Pre-Cancun consultations (see State opportunities list)

(4) Articulation of Reagan Policy: Speech before Cancun? or paper before Cancun? or back-up paper following Presidential statement at Cancun?

BH — Therefore our terms

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2. make sure we N/S feeling

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
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WASHINGTON
20506

September 28, 1981

CANCUN - TRADE

I. Background - The U.S. Contribution to an Open International Trading System

A. The U.S. record on trade liberalization needs no defense.

- Although the GNP of the U.S. economy is only about 25 percent of the world's total, the United States absorbs approximately one-half of all LDC exports of manufactures.

- U.S. imports from developing countries nearly equal the combined shipments from the European Community and Japan.

B. The U.S. market is one of the most open in the world.

- In 1980, 51 percent of U.S. imports from developing countries entered duty free. Our average tariff on all dutiable imports was 5.5 percent.

- The United States maintains very few quantitative restrictions and U.S. customs procedures are highly transparent and predictable.

C. This Administration, in particular, is committed to the increased allocation of resources through free markets and increased participation by the private sector in the development process.

- Our decision against the extension of orderly marketing agreements for footwear demonstrates our efforts to maintain open markets for LDC exports. At present, imported footwear accounts for over 50 percent of consumption in the United States, which says something about our willingness to allow competition to work.

- Our private sector approach to development is well illustrated in the Caribbean Basin Initiative which is designed to stimulate economic growth in the region.

II. The Caribbean Basin Initiative Action Program

- The United States has joined with Canada, Mexico and Venezuela to spur the process of development in the Caribbean Basin through trade, investment and aid flows.

- Among the proposals under active consideration are doubling of the current tourist allowances, expanded investment insurance coverage, bilateral investment treaties, addition of products to the Generalized System of Preferences and marketing assistance such as pilot and feasibility studies.

- We can use the opportunity of Cancun to discuss this pragmatic and we think effective means of supporting LDC development plans.

III. The GATT Ministerial, which is scheduled for the fall of 1982, will lay the groundwork for greater liberalization, strength and discipline in the international trading system.

- Support for the GATT system of free trade, non-discrimination, reciprocity and structured settlement of disputes is the cornerstone of U.S. trade policy.

- The United States will continue to urge LDCs to participate more fully in the GATT system as it provides the most effective forum for addressing those issues affecting developing country trade.

- The United States is concentrating its efforts on identifying issues for the Ministerial and its future work plan which will be of interest to all pragmatic trading nations, whether in the developed or developing world.

IV. Safeguards

- At Cancun, the United States can be very forthcoming to developing countries concerning GATT negotiations on new international rules governing the use of safeguard measures since on many key safeguard issues, the U.S. position is closer to that of the developing countries than to that of other developed countries, including the EC and Japan.

- The developing countries would benefit from the U.S. proposal to the GATT on safeguards which reduces arbitrary, secretive, inter-industry trade restraints.

V. Generalized System of Preferences (GSP)

- The Generalized System of Preferences (GSP) is one of the major, and perhaps the most visible, programs which the United States maintains for the benefit of developing countries.

- Since the U.S. GSP was implemented in 1976, imports accorded GSP duty-free treatment have increased three-fold. Total shipments are likely to reach $9 billion during 1981.

- We can take a great deal of credit for our GSP system. It is more open and responsive than that of other GSP donors and we encourage developing countries to play an active role in its evolution.

- If we want to be somewhat forthcoming at Cancun, the President could reiterate his support for the GSP program. If we want to offer an extremely forthcoming trade initiative at Cancun, the President may want to say that his Administration will work over the next two years for an extension of GSP beyond its expiration date of January 1985, although in a revised form.

VI. Multi-Fiber Agreement (MFA)

- The United States should not take the lead in raising the MFA at Cancun. If it comes up we can say:

- The MFA's fundamental objectives are to expand and liberalize trade in textiles while avoiding the disruption of individual markets. It seeks to obtain for developing countries increases in their export earnings and a greater share of the world's trade in textiles and apparel.

- The United States recently tabled an MFA renewal proposal in Geneva which is balanced and moderate. For instance, we have proposed the elimination of the clause permitting rollbacks in LDC textile trade. In addition, we are proposing that the growth and flexibility of large quotas from Hong Kong, Korea, and Taiwan be limited, which would allow us to provide more favorable access for the small and new suppliers, particularly the least developed.