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Current Status Details for CTRH RECID: 025515 MAIN SUBCODE: FO006

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Status Date	2019-07-19
Case Number	F16-011
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No.	Status	Date	User	Case Number	Notes
1	Open	2019-07-19	dbarrle	F16-011	13 p. Transferred to FO006-01

MEMORANDUM -

#2475

NATIONAL SECURITY COUNCIL

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C0028
TR009
FG006-15
FG006-12
TA005

May 8, 1981

CH

MEMORANDUM FOR ANN H. HUGHES, USTR

FROM: ALLEN LENZ *AGL*
SUBJECT: Ottawa Summit: Trade Issues

The NSC staff believes that the U.S. paper on trade issues at the Ottawa Summit sets out quite well the agenda of trade issues for the 1980s and offers a reasonable two-track approach (OECD and GATT discussions) to preparing for a new round of trade negotiations.

What seems to be missing at this point is a long-term sense of where we are going on trade issues in the 1980s. What should be the theme of trade discussions in this decade? Is the emphasis on service, investment performance criteria and bilateralism enough? Is it possible that trade negotiations in the 1980s could tilt more explicitly in the direction of LDCs? The theme of the 1980s might become full integration of the more advanced and middle income developing countries into the international trade system. Such a theme would keep pressure on the advanced countries to avoid protectionism because of their obligations to the LDCs. This type of commitment may be needed to forestall increasing protectionist moves against trade among the advanced countries themselves.

All of this needs to be thought through more carefully, but we should begin work on outlining a broad strategy for the decade, broken down perhaps into phases that can be implemented as domestic economic conditions improve.



2475

CABINET TRADE POLICY COMMITTEE

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT

WASHINGTON, D.C. 20506

May 1, 1981

MEMORANDUM FOR

MEMBERS OF THE TRADE POLICY COMMITTEE

From : Ann H. Hughes, Executive Director *AHH*

Subject: Ottawa Summit: Trade Issues

As part of the preparations for the Ottawa Summit, the Japanese personal representative has been tasked with preparing a paper on trade issues. The next draft of the Japanese paper is expected by May 28.

The attached paper is an attempt to present U.S. thinking on how trade issues might be dealt with at the Ottawa Summit. It has been prepared with interagency consultation and used as background by the U.S. delegation to Summit preparatory meetings.

We propose to give the paper itself to appropriate Japanese officials for use in preparing the next draft of their paper. It would be timely to do so during the visit of Prime Minister Suzuki next week. Any comment on the paper and the approach will be needed by noon, Wednesday, May 6. Responses should be directed to Dave Dunford of USTR (395-3074).

Attachment

DRAFT
5/1/81

OTTAWA SUMMIT

U.S. Thoughts on Trade

Successive Summits since the mid-1970's have contributed significantly to managing a period of substantial stress on the international trading system. Summits have built, on the foundation of OECD trade declarations, a strong political commitment to an open trading system based on reciprocity and fair trade. The timely political stimulus given by Summit participants contributed to the successful conclusion of the Multilateral Trade Negotiations (MTN) in 1979. The last three Summits have begun to focus attention on rigidities in our domestic economies and to encourage adjustment to reflect real shifts in competitiveness.

As we approach the Ottawa Summit, the international economic climate remains difficult. Developments in the world economy over the past few years, such as the sharp increases in energy prices and the rapid emergence of new suppliers of manufactured products in world markets, have forced the pace of adjustment in our economies and created strong pressures for protective import measures. There are also strong temptations to offset oil-related payments deficits by restricting imports or artificially increasing

exports. Successful management of these pressures is a significant factor in our efforts to promote efficiency in our domestic economies and an important element in strengthening Western cohesion on economic relations with the rest of the world. Individual efforts to insulate our economies from adjustment or to offset oil-related deficits can only lead to collective failure. The renewal of our commitment to resist protectionism in Ottawa must be fresh and credible.

Credibility will flow from the articulation in Ottawa of an effective strategy which embraces both domestic adjustment and further international cooperation and which is aimed at promoting further trade liberalization and further strengthening of the international trading system.

Domestic Adjustment

A coherent response to changing world trade patterns and to the associated domestic adjustment pressures must begin with macroeconomic policies that facilitate the operation of market forces and encourage non-inflationary economic growth. Competitiveness at home and abroad requires domestic economic policies that reduce inflation and stimulate research and development and investment and, thus, raises productivity. The new U.S. Administration's economic

recovery plan provides the framework for achieving these objectives. The four component parts of the plan are: reduction of government expenditures, reduction of taxes, regulatory reform and control of money and credit.

International Measures: Agenda for the 1980s

In the absence of any ongoing round of trade negotiations, we need to find a way to restore the forward momentum and strengthen international cooperation in support of an open trading system. The international trading system needs to be prepared to meet the challenges of the 1980s. The first step should be to develop an agenda for action on trade in the 1980s. Some issues, such as export credits and renewal of the Multi-fiber Arrangement, will have to be addressed immediately. The question of an international agreement on illicit payments (dealt with in a separate paper) may also fall into this category. Continued attention will have to be given to implementation of the MTN agreements. Other issues which deserve priority attention include (a) international trade in services, (b) incentives, disincentives and performance requirements related to investment, (c) the development of an international agreement covering safeguard actions, and (d) the disturbing tendency toward bilateral deals for supply commitments on oil or raw materials.

Of equal importance is the need to expand LDC participation in the trading system and to adapt it to the problems of trade with the nonmarket economies.

Immediate Issues

Export Credits - Given the growing consensus among Summit participants on the need to reduce trade distortions, as well as a desire to reduce the growth of government expenditures, the participants should agree to honor their Venice Summit agreement to bring export credit rates closer to market rates. This issue needs to be resolved immediately. With the failure of the export credit negotiations, participants have taken a variety of actions to improve their competitiveness. We could face a costly and self-defeating export credit war if Summit participants do not renew their Venice commitment and agree to honor it by a set date. The U.S. would like to suggest October, 1981 as a reasonable target date. At stake here is the credibility of all Summit commitments.

MFA Renewal - The renegotiation of the Multi-fiber Arrangement under the auspices of the GATT Textile Committee is one of the most important issues on the 1981 trade agenda and deserves priority attention. Summit participants should keep in close touch as their positions develop and should

begin to consider whether and how the Summit could facilitate successful conclusion of the negotiations.

Other Priority Issues

MTN Implementation - Our trade strategy for the 1980s should build upon the successes of the 1970s. In particular, the Summit participants should agree to work for full and effective implementation of the MTN agreements by all signatories. The manner in which the MTN codes are applied will determine the shape and effectiveness of GATT discipline over nontariff barriers in the coming decade. MTN implementation has in general been proceeding satisfactorily but sustained effort is needed over the coming years.

Trade in Services - International trade in services can contribute to the same economic benefits as trade in goods, including economic efficiency, economic growth, increased employment and productive investment in the world economy. In the past 30 years, services trade has increased at an extraordinary pace, reflecting the growing service-oriented nature of the advanced economies. The international rules and procedures which have developed over the past several decades with respect to goods, for the most part, do not

specifically apply to trade in services. The U.S. believes that the liberalization of trade in services and the achievement of fair competition in services should be one of our key objectives for the 1980s. The achievement of these objectives are needed to assure an orderly expansion of economic relationships in services and to avoid increased intergovernmental tensions in this area.

Trade-Related Investment Issues - Our governments should address themselves in the 1980s to the wide variety of ways in which governments intervene to influence investment decisions. These policies distort trade flows just as seriously as do tariffs and non-tariff barriers. Both developed and developing countries use trade-related investment requirements and incentives (e.g., export performance and local content requirements) to accelerate their development efforts in particular directions and to preserve or create employment in chosen industries. Such measures can have an effect equivalent to that of export subsidies or import barriers and should be brought under a common international discipline. We should give impetus to the work in the OECD and the GATT on these issues.

Safeguard Negotiations - An important piece of unfinished business relates to the need for an appropriate international discipline for safeguards actions. The existing GATT procedures have in certain circumstances proved to be so unattractive that countries have felt compelled to circumvent them. The clarification of international rules on safeguards is critical to the integrity of the international trading system. Without an understanding on commonly accepted safeguards practices, we will likely see the gradual accumulation of arrangements and practices that increasingly distort trade and undermine market-determined international competition. Achieving an improved discipline in the area of safeguards should also be a key element of an improved trade relationship with the developing countries.

Bilateral Deals Involving Oil or Raw Materials - Concerns regarding the availability of oil and raw materials have led a growing number of governments to negotiate bilateral deals, which include supply commitments for oil or raw materials, investment commitments in processing facilities, and import commitments for processed goods. Such arrangements often are not consistent with international trade commitments and they pose a serious threat to the inter-

national trading system. The United States believes this growing bilateralism needs to be addressed in appropriate GATT and OECD fora and a way found to reverse the current trend, which if allowed to continue unchecked, can only result in undermining the foundations of our international trading system.

Trade with LDCs - Trade between our countries and the developing countries is increasingly important to our economic well-being. The developing countries' ability to import in turn depends critically on market access for their goods and the availability of financing. One of our objectives for the 1980s should be to consolidate and expand on the work begun in the MTN of integrating the developing countries more fully into the international trading system. We should encourage non-signatory LDCs to undertake the obligations of the MTN codes and encourage those LDCs which have acceded to the codes to play an active role in their implementation. The more advanced developing countries should undertake trade obligations commensurate with their stage of development. We need to carry out our trade dialogue with developing countries through constructive discussions -- both bilaterally and in the GATT. Our objective would be to prevent the

more acrimonious collective dialogue in other settings from souring the atmosphere for genuine progress in the trade area.

Non-market Economies (NMEs) and the GATT - We also need to develop a more comprehensive body of commercial rules addressing NME integration into our market-oriented trading system. NME membership in the GATT provides a bridge to fuller NME participation in our trading system, but we have not been able to find a way to ensure sufficient reciprocity for other GATT members. Reciprocity would be enhanced if NMEs were to increase the transparency of their foreign purchase decisions and reduce their extensive bilateralization of trade. The possibility of early Chinese accession to the GATT would make serious consideration of these issues in both the GATT and the OECD more urgent.

Institutional Considerations

The Ottawa Summit could give impetus to a trade policy work program for the 1980s. A basic question which Summit participants should address is the timing of an attempt to reach a consensus on such a work program.

A second question is that of the most appropriate institutional vehicle for initiating and carrying out work on the topics which we identify as needed to be addressed. We will want to take advantage of the dynamism and competence of the new Director-General of the GATT. On some topics, however, such as services and investment issues, we have made a constructive beginning in the OECD and we should encourage that institution to play a continued role. We must at the same time recognize that the launching of initiatives in the GATT before there is a broad consensus among the major developed countries could result in the kind of polarized North/South type of dialogue we want to avoid. On all issues we will want to encourage the GATT and the OECD to work more closely together than they have in the past.

These considerations lead us to suggest that we consider asking Emile van Lennep, acting in his personal capacity, to consult with representatives of key developed and developing countries, to develop an agenda of trade issues for the 1980s, and to report back to the 1982 OECD Ministerial. The Summit could endorse this approach.

A meeting of GATT trade ministers, at the right moment and with careful preparation, could be very useful to pursue.

NSC/S PROFILE

UNCLASSIFIED

ID 8102475

RECEIVED 04 MAY 81 12

TO ALLEN

FROM HUGHES, A

DOCDATE 01 MAY 81

025515

KEYWORDS: SUMMIT

INTL TRADE

SUZUKI, SENKI

OIL

MTN

Export credits

NUCLEAR SAFEGUARDS

ECONOMICS

LDC

XXX

SUBJECT: OTTAWA SUMMIT - TRADE ISSUES

ACTION: COMMENTS/CONCURRENCE

DUE: 06 MAY 81 STATUS S FILES

FOR ACTION

FOR COMMENT

FOR INFO

NAU

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COMMENTS

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ACTION OFFICER (S)

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COPIES TO

C 5/8 Long ago memo to Hughes H, L

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(C) *M.*



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Current Status Details for CTRH RECID: 028043 MAIN SUBCODE: FO006

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User Name	dbarrie
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Case Number	F16-011
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1	Open	2019-07-19	dbarrie	F16-011	3 p. Transferred to FO006-01

Dg



DEPARTMENT OF STATE

Washington, D.C. 20520

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May 18, 1981

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F006
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FG 011
FG 006-12
TR009

MEMORANDUM FOR RICHARD V. ALLEN
THE WHITE HOUSE

Subject : Summit Preparations: Political Discussions

We share the concerns you expressed in your memorandum of May 12 to the Secretary regarding preparations for political discussions at the Ottawa Summit. We agree that these preparations should not be initiated so late that we and our allies are unable to prepare adequately for the Summit.

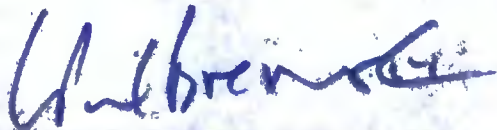
When preparations for the Summit first began in February, there was a general perception that political issues would not play a major part in the Summit. In the meantime, however, most Summit participants have come to recognize that issues like East-West and North-South relations will be discussed essentially in their political setting. The Secretary also felt that it was important for the President to capitalize on his success in already asserting the U.S. leadership role by using this opportunity to talk at some length on his global perspective and his approach to various regional issues. Thus, as the political issues have taken on more importance, the need for more extensive preparations has become evident.

At the last meeting of the Personal Representatives in Paris in April, they tentatively concluded that the political discussions among the Heads of State should, by and large, take place at the meals with the morning and afternoon sessions being devoted primarily to the economic agenda. (We note from early reports that Chancellor Schmidt believes that when the principals are among themselves "around the fireplace" they can raise anything on their minds including political issues; this suggests that he does not want the political discussions to become too formalized.) Nevertheless, we think it would be useful to return to your original suggestion of continuing the political discussions on Monday morning. We will explore this approach with others but exercise caution in doing so. Their reaction could well be that while having agreed to political discussions, we are now according them too much emphasis.

The Mitterrand victory in France interjects a new element. There is a strong possibility that Clappier will not stay on as the Personal Representative. The French will only have a brief period to prepare their positions by July 19 and we have no idea at the moment how the new French administration will react to the whole summit process, particularly to the inclusion of political topics. The French have alerted the Canadians that the new administration will not be prepared to discuss substantive Summit issues until the end of June and have suggested that the meeting, contemplated for Montebello July 6-8 for personal representatives only, be switched to Paris and include all the SHERPAS.

We are preparing a separate political strategy paper, drawing on the paper which your staff prepared and the Vice President cleared. This paper will spell out what we should seek to achieve on the political front at Ottawa. It will include a list of issues which we could suggest to our allies when the political directors first meet and a description of how we could utilize both the June and July political directors meetings to achieve our objectives. We would like to meet with members of your staff and the Vice President's on Friday, May 22 to discuss this paper.

In the meantime, Mike Rashish has conveyed to the Canadians our strong desire for a meeting of the political directors in early June, presumably a half day at Vancouver, and the Canadians are recommending to the other countries that they agree.



L. Paul Bremer III
Executive Secretary

NSC/S PROFILE

UNCLASSIFIED

ID 8102833

RECEIVED 19 MAY 81 10

TO ALLEN

FROM BREMER

DOCDATE 18 MAY 81

028043

KEYWORDS: SUMMIT EAST WEST ECONOMICS
 FRANCE GERMANY F R
 CANADA

SUBJECT: STATE RESPONSE TO ALLEN 12 MAY MEMO RE SUMMIT PREPARATIONS - POLITICAL
 DISCUSSIONS

ACTION: PREPARE MEMO FOR ALLEN DUE: 20 MAY 81 STATUS S FILES

FOR ACTION	FOR COMMENT		FOR INFO
NAU	LENZ	BAILEY	TYSON
	STEARMAN	RENTSCHLER	

COMMENTS *No response necessary! This is a response to an earlier Allen memo and raises no new issues requiring response*

REF# 8115127 LOG 8102331 NSCIFID (H /)

ACTION OFFICER (S)	ASSIGNED	ACTION REQUIRED	DUE	COPIES TO
	<i>C 5/29</i>	<i>No further action required</i>		
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Current Status Details for CTRH RECID: 029301 MAIN SUBCODE: FO006

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1	Open	2019-07-19	dbarrie	F16-011	25 p. Transferred to FO006-01

MEMORANDUM

NATIONAL SECURITY COUNCIL

INFORMATION

April 14, 1981

MEMORANDUM FOR RICHARD V. ALLEN

FROM: HENRY R. NAU *HRN*SUBJECT: East-West Economic Relations

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The attached paper was prepared in the following way:

1. Six weeks ago, the State Department IG on East-West economic relations began to draft a paper on this subject for the Summit.

2. This paper was to be completed, approved and circulated to our Summit allies by April 8.

3. By April 6 the State IG had made no progress.

4. Gordon Streeb in Mike Rashish's office grabbed the ball and did a first draft.

5. I took this draft and completely revised it last Wednesday (April 8). I circulated that draft for comments to Lenz, Deal, Pipes and Stearman. State then circulated the draft to Commerce and Defense.

6. By Friday, all agencies had agreed to the basic framework of the paper.

7. Over the weekend, Streeb and I revised the draft based on initial reactions.

8. The revised draft was then circulated once again to Lenz, Deal, Pipes and Stearman, as well as other agencies.

9. This is the attached paper that was sent to Haig and to you on Monday morning for review.

The paper was always a State paper. We played our role as a member of the State IG and working closely with Rashish on Summit affairs. The paper you received was the draft that State had not yet distributed to any principals. But since we had participated actively in the drafting of the State paper, we wanted you to see it at the same time as Haig.

I kept you informed in my weekly reports and felt that we were operating in the manner that you have prescribed for the NSC staff. I hope I was correct.

NSC#8101992

MEMORANDUM

NATIONAL SECURITY COUNCIL

INFORMATION

April 13, 1981

MEMORANDUM FOR RICHARD V. ALLEN

FROM: HENRY R. NAU

SUBJECT: East-West Paper for the
Ottawa Economic Summit

In my weekly report, I promised you a copy of the revised East-West paper for the Summit which we worked on over the weekend; it is attached. The Secretary of State is reviewing it and a decision will be made by COB today on where the paper will be discussed for Cabinet approval. If you feel strongly about this paper being considered by the NSC, I suggest that you confer with Haig and present a unified position ~~to~~_{on} this question to the Vice President.

I have red-lined the key sentences of the paper for quick reading.

Attachment:
a/s

*Henry -
Pres. advise
RVA from Hamba
JK*

4/14 0745

*How did he get it?
Who cleared it for
transmission?
Did J. per Skermer,
Leng, Gress etc.?*

MEMORANDUM

NATIONAL SECURITY COUNCIL

INFORMATION

April 13, 1981

MEMORANDUM FOR RICHARD V. ALLEN

FROM: HENRY R. NAU

SUBJECT: East-West Paper for the
Ottawa Economic Summit

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I have red-lined the key sentences of the paper for quick reading.

Attachment:
a/s

*Called change to
Peter Danley 4/13/81
Cleveland*

THE WHITE HOUSE
WASHINGTON

April 17, 1981

FOR: Secretariat

or for Henry Nau?

East-West Economic Relations:

A Prudent Approach

Economic relations with the Soviet Union and the Eastern European countries should be conducted within the context of the broad political-security objectives of the Western alliance.

These objectives include:

-- to nurture cooperation among the Western allies and enhance the commonality of alliance/^{purposes}and approaches toward the Soviet Union and Eastern Europe;

-- to strengthen Western defenses in order to deal with the reality of a more rapid Soviet buildup in military power;

-- to counter the projection of Soviet power both direct and indirect in Eastern Europe, Southwest Asia, northern Africa, Central America, and Indo-China;

-- to seek to influence Soviet behavior to contribute positive to a pluralistic, free and peaceful world;

-- to foster diversity in Eastern Europe by promoting domestic liberalization and foreign policy independence from the Soviet Union.

The Soviet Union and its Warsaw Pact allies remain the principal threat to Western security. The Soviet Union continues to devote an excessively large share of its gross national product to the military sector. This enhancement of Soviet power coincides with aggressive Soviet foreign policy behavior -- open aggression in Afghanistan, visible threats on the borders of Poland, deployment of theater weapons in

Europe (SS-20s) and support for leftist revolutions and terrorism (e.g., Libya, Ethiopia, Angola, El Salvador). Whenever possible the Soviet Union, with the support of other states of Eastern Europe, most notably the GDR and Bulgaria, seeks to exploit indigenous discontent to bring to power elements which are hostile to Western political and economic institutions and in the process to enhance the Soviet Union's world position.

At the same time, the Soviet Union and some of its Warsaw Pact allies are unusually vulnerable at home, particularly in the economic area. All studies of the Soviet economy show at best very slow growth in the early 1980s; some foresee sharp declines in GNP. Economic difficulties in Eastern European countries are also severe and will exert a further claim on Soviet resources.

The combination of Soviet militancy and economic vulnerability creates a unique need and opportunity for the Western allies to pursue more competitive policies toward the Soviet Union across a range of issues.

As the Western allies seek to deter further aggressive Soviet actions in Poland and elsewhere in the short-term and to redress the military balance with the Soviet Union over the near term (3 or 4 years), they must explicitly recognize the relationship between these objectives and the conduct of economic relations with the Soviet Union and Eastern Europe. These economic relations may enhance Soviet military capabilities directly, transfer

technology not otherwise available which makes a significant contribution to military capabilities indirectly, and contributes more broadly to the Soviet ability to sustain levels of military expenditure far in excess of those Western countries with different domestic constraints may be able to match in the future. Further, certain economic relations with the East may lead to levels of dependence which increase Western vulnerability to political influence and coercion by the Soviet Union; and other economic relations may offer an opportunity to influence future Soviet and Eastern European economic and political behavior.

Given these considerations, the Western countries must review systematically policies toward economic relations with the Soviet Union and the Eastern European countries to take account of the different political-security conditions which prevail today and to influence the future course of Soviet policy in Europe and around the world.

Under what guidelines should the Western allies collectively restrict, manage or utilize the influence of their economic relations with the Soviet Union and Eastern Europe to advance broader Western political-security objectives?

In answering this fundamental question, distinctions can be made with respect to four areas of economic relations:

1. strategic controls - controls on strategic goods and technology;
2. foreign policy and contingency controls - controls on selective or overall trade designed to further political objectives, including signaling disapproval of Soviet actions,

punishing the Soviet Union and its Warsaw Pact allies, or exercising leverage over these countries;

✓ 3. management of economic security - management of the levels and terms of trade (e.g. subsidies) to limit dependence on markets or resources of the Soviet Union and Eastern Europe or to reduce vulnerability, arising from such dependence, to the exercise of Soviet leverage over the West.

✓ 4. utilization of economic influence - coordination of Western trade and financial policies with respect to Eastern European countries and in the longer-run, the Soviet Union to influence these institutions of the international economic system.

The most restrictive approach to economic relations between East and West would impose limits on relations in the first three areas and hold out little prospect for meaningful progress in the fourth area. The least restrictive approach would promote trade and financial flows in the fourth area, expecting to maximize positive influence, and impose limits only on strategic trade. Neither of these extreme approaches seems well suited to the present period.

Present circumstances call for a prudent and more sophisticated approach which deals with each area under differing assumptions and principles. Specifically, such an approach should seek to:

-- review the adequacy of strategic controls and improve the enforcement of these controls;

-- recognize that foreign policy controls are a vital aspect of contingency planning and impose these controls primarily in crises, if possible in connection with agreed objectives and for a specified period of time (otherwise avoid imposing such controls);

-- foster discussion and review of levels of dependence on Eastern resources and markets, and development of collective measures to protect against vulnerability from this dependence ie. Soviet threats to disrupt economic relations designed to extract political concessions from the West (the Soviet Union's equivalent of the "oil weapon").

-- concert policies to enhance adherence by Eastern European countries to rules and discipline of economic relations as practiced in the West.

Strategic Controls

The Western allies have administered controls on trade in strategic goods and technology with the Soviet Union and Eastern Europe for more than 30 years through the Coordinating Committee (COCOM). Despite its informal nature, COCOM has been relatively successful in slowing the transfer of military significant technology to the East. The West has protected important lead-times over the Communist countries in the development and application of militarily significant technologies and has added to the costs of Soviet developments in the military sector.

Rest of
paper
is
elaboration

After the Soviet invasion of Afghanistan, the COCOM partners discussed a range of issues involving stricter controls on the export of strategic goods and technology to the Soviet Union and adopted a policy in practice not to seek exceptions in COCOM to sell embargoed goods to the Soviet Union. This discussion has focused a number of issues which need to be further reviewed and studied by the Western allies:

-- Should the no-exceptions policy become a permanent feature of COCOM, at least during the near-term period in which the West seeks to overcome Soviet military advantages?

-- Are the COCOM partners controlling the right goods and technologies?

-- Is the existing list of COCOM-embargoed items adequate and up-to-date in relation to the advance of technological developments in certain areas? (For example, COCOM controls on manufacturing technology and software are somewhat ambiguous.)

-- Are the existing COCOM criteria, which provide the conceptual basis for determining whether equipment and technical know-how should be controlled, adequate to restrict the transfer of important, militarily significant "process know-how" or know-how that is transferred through package deals involving the systems management and overall integration of big projects in militarily relevant industrial sectors (metallurgy, chemicals, heavy vehicular transport, shipbuilding, aerospace, communication, computers, and machine building)?

-- Are existing national and collective efforts to enforce COCOM decisions adequate? Is there a need and opportunity for more intensive consultation and cooperation among the allies in dealing with:

1. new scientific/technical developments -- are there end uses, especially military applications, which are not immediately apparent to the developer;

2. availability -- are comparable technologies available from more than one source;

3. intelligence -- wider sharing of intelligence information on enforcement of COCOM regulations and on Soviet technological capacities and military needs;

4. commercial espionage -- how to restrict Soviet acquisition of technology through other channels;

5. varying national authorities to control strategic exports -- review of respective national authorities and institutions to implement strategic controls.

Several mechanisms exist through which these discussions may go forward (NATO, COCOM, OECD, etc.) But the Summit countries may wish to consider whether the Western allies need to create a new forum to conduct the high-level policy discussions called for by the complex and serious questions raised in this section.

Foreign Policy and Contingency Controls

Foreign policy controls have been less systematically discussed and dealt with among the Western allies than security controls. Perspectives diverge on the necessity and effectiveness of such controls, the objectives to be served by such controls, the real impact, if any, of such controls, and the timing and nuance of such controls when used as signals.

The Soviet invasion of Afghanistan and threatened intervention in Poland have contributed to a more intensive discussion of political or foreign policy controls on exports to the Soviet Union. After Afghanistan, the United States imposed a series of unilateral controls:

1. on grain shipments to the USSR in excess of eight million metric tons per year, the ceiling established in the US-Soviet long-term grain agreement;
2. on non-grain agricultural products which might substitute for grain (e.g., soybeans, vegetable oils and meat);
3. on phosphate shipments to the USSR, blocking full implementation of a 20-year barter arrangement between the USSR and Occidental Petroleum;
4. on Olympics-related equipment and services;
5. on exports of oil and gas technologies (as distinguished from oil and gas equipment); and
6. on diesel engine assembly line for Kama River truck plant.

The United States then sought to persuade its allies to cooperate with these embargo measures, particularly the agricultural and diesel engine assembly line controls.

What is clear from past experience is that such controls are more effective if they are implemented collectively and that the allies have been able to agree on such controls more readily in the context of contingency planning for crisis than in the aftermath of crisis. It may be useful therefore to limit the consideration of foreign policy controls to contingency planning. Such consideration might entail not only a determination of what should be controlled under different types of crisis but also what conditions should be fulfilled before the controls would be lifted (e.g. withdrawal of offending adversary troops from a particular territory or less stringently, initiation of a peace process to effect such withdrawal). It should not be expected that firm, precise agreement will be reached on such actions and goals prior to the occurrence of the crisis, but essential and highly useful preparatory work could be accomplished, coordinating perspectives in relation to various scenarios and achieving better understanding of national and collective capabilities to undertake important foreign policy responses involving export controls. Such efforts in the case of contingency planning for Poland have proven fruitful.

The Summit countries may wish to consider various alternatives for conducting more systematically and on a more sustained basis, particularly as long as threats remain actual, studies of the use of foreign policy controls on exports to the Soviet Union and other Communist countries in the event of a crisis.

Management of Economic Security

The foregoing discussion suggests that the basis for allied agreement on control of trade with the East is strong in the area of strategic goods and technology and less strong, though nevertheless potentially significant, in the area of contingency planning for the use of foreign policy controls in crisis situations. In the trade area more generally, economic and political interests among the allies differ. Geographically and historically, Western Europe has longstanding trade and cultural links with Eastern Europe. The tables in Appendix A show that Western Europe has a much higher stake in trade with the East than the United States, Canada and perhaps also Japan. For Western Europe, this trade is an important component of domestic employment and industrial revenues. These differences cannot be ignored, anymore than the obligation they impose to ensure that there is broad confidence and clarity among the allies concerning the levels and terms of trade in their respective economic relations with the East.

The issue in collective management of broader economic relations with the East is less restriction of trade and financial flows than careful monitoring of the consequences of such trade,

particularly the acquisition by the Soviet Union and Eastern European countries of a degree of leverage over Western countries that permits direct political influence over the policies of Western countries or that sharply reduces the options of Western countries in dealing with Eastern countries. This is a different concern from that which seeks to use Western economic relations to influence the Soviet Union and Eastern European countries (see next section). It deals with Soviet and Eastern European economic influence over the West. This influence derives in the first instance from the level of dependence of the West on Eastern resources or markets. In purely economic terms, such dependence is reciprocal. A supplier is beholden to the customer as much as the reverse. The Soviet Union and its Eastern European allies have as many economic reasons to preserve such trade as the West. It benefits them no less than us. Nevertheless, in situations where political - security interests diverge, it would be unwise to rely on the mutually beneficial economic consequences of trade and financial relations to preserve these relations under all circumstances. Parties will be constantly searching for advantage. If the potential, threat or actual decision to cut off supplies (or market) should result at any point in time in greater disadvantage to one party than the other, the incentive and opportunity to exercise leverage would emerge.

The potential for influence thus ultimately derives from vulnerability not dependence. Vulnerability results from failing to review continuously among the Western allies the advantages and disadvantages of various economic relationships and failing

to consider measures to protect against efforts by the other party to manipulate these advantages and disadvantages. In their economic relations with the East, the Western countries will have to worry less about the levels of trade and financial relations the more they consider means to protect against the vulnerability which derives from these levels. An essential means to preserve gains in economic relations with the East therefore is for the allies to enter into discussions to deal with vulnerability. Unless this is done, the levels of dependence themselves will become matters of controversy and act to undermine confidence among the Western allies in their respective economic relations in the East.

The Western allies should observe a prudent concept of economic security in their economic relations with the East. This concept supplements the more familiar concept of strategic security but is very different in its premises and application. Economic security does not necessarily imply the restriction or even discouragement of levels of trade and other economic transactions between East and West. Rather, it involves building in redundancy to protect against the disruption of supply of critical materials (e.g., natural gas) from the Soviet Union and Eastern Europe through back-up emergency supply arrangements among the allies, long-term cooperation for development of alternative supplies, etc. In some sense, this might be thought of as the equivalent of an "IEA" for East-West trade (i.e. preparing for short-term supply disruptions of Eastern resources and developing long-term alternatives).

The concept also applies to the development of markets in the East for supply of Western goods and financial services (as opposed to the acquisition of goods or resources from the East). In this case, management involves consideration of alternative markets or alternative uses (e.g., stockpiles, food reserves, exports of capital goods to developing countries, protection against excessive financial exposure, etc.) for Western exports if strategic realities should warrant cutting off exports to the Soviet Union or Eastern Europe. (It also implies, incidentally, maintaining open markets in the West to reduce pressures to expand trade with the East.)

There are a host of issues raised by this concept which deserve further discussion and study among the allies:

-- Are there alternatives to substantial Western European reliance on Soviet sources of supply (e.g. of gas, oil or minerals) or on Soviet markets? (What is the relationship here between access to energy resources in the West and Middle East and decisions to obtain such resources from the East?)

-- Should the allies continue to subsidize trade with the East (e.g., concessional export credits) particularly for products and projects that contribute to potentially troublesome levels of dependence and vulnerability?

-- What are the implications of the debt problem for narrowing Western options in dealing with Eastern European countries and the Soviet Union, especially as long as some of these countries remain free of the discipline of the IMF and other Western

institutions? (The point here is can the West afford default any more than the East and, if not, does the financing of higher levels of debt contribute more to our potential leverage over them or their potential leverage over us?)

The Summit countries may wish to adopt the concept of economic security for further discussion and study within the various existing or perhaps new mechanisms dealing with Western economic relations with the East.

Utilization of Economic Influence

Considerable trade and financial activity takes place between East and West which does not raise concerns of strategic or economic security and which in normal times is not subject to political or foreign policy controls. This economic activity offers some opportunity to influence Eastern European countries and perhaps less so the Soviet Union, although recent history would suggest that such influence is not very great. Economic relations with the East are neither as significant for improving political and security relations with the East, as some argued in an earlier period, nor as important, if these relations could be reduced, for adversely affecting the political and security programs of these countries, as others might contend. Nevertheless, given the more competitive character of relations today between East and West, it is useful for the allies to consider how they might orient their broader trade and financial relations with the East to maximize influence over the economies and political behavior of Eastern European countries and eventually perhaps also the Soviet Union.

In this consideration, the Western allies should be guided by several common objectives:

- to foster diversity among the Eastern European countries and particularly increased flexibility and independence from the Soviet Union;
- to avoid alleviating the costs to the Soviet Union of its hegomonal policies in Eastern Europe and its imperialistic policies, with the support of some Eastern European countries, outside Europe;
- to encourage the Eastern European countries increasingly to subject their foreign and indirectly domestic economic activities to the rules, discipline and eventually institutions of the Western economic system.

In implementing these common objectives, the Western allies must recognize the diversity of their own relations with Eastern European countries, as well as the diversity of the relations of individual Eastern European countries with the West. The Table in Appendix A shows trade data for 1979. While Western trade with the East is more important for some countries than for other, it is not in general a significant share of total exports or imports. The share is highest for the FRG where exports to the East account for some 6.5% of total exports although 1.5% is to the GDR alone. A total disruption of trade would have an impact on the FRGs economy especially as much of the FRGs exports are in chemicals, manufactured goods and machinery. On the other hand, trade between North America and Eastern Europe, despite a rather dramatic expansion over

the last decade, is still rather modest; in fact, as a share of total trade, it has stabilized over the last five years.

For the countries of the East, Western markets represent the most significant outlet outside of CEMA. With the exception of Bulgaria, most of these countries have relatively large shares of exports going to the West, representing far higher percentages of their total trade than is the case for Western trade with the East. All Eastern European countries (and the Soviet Union) show deficits in their trade with the West, as much as one-quarter overall, giving rise to the flow of financial resources that has resulted in the large cumulative debt of the East.

The commodity patterns of East-West trade also exhibit considerable diversity (see Tables IV and V). The bulk of Western exports to Eastern Europe are in food, chemicals, manufactured goods, machinery and transport equipment. Western Europe exports primarily chemicals and manufactured goods although France also exports a considerable volume of food and live animal products to the USSR and Poland. In contrast the great bulk of exports from North America is in feed grains and wheat with only modest amounts of manufacture. On the import side fuels dominate the picture for Western Europe with chemicals the other leading category. Japan's imports are mainly raw materials and some wood and paper product from the USSR. US imports are dominated by meat products from Poland and manufactured goods from the USSR, Poland and Romania.

The West is clearly a more important market for Eastern European countries than vice-versa. This reality should be recognized as an opportunity to coordinate Western policies to

increase the influence of Western economic rules, discipline and institutions on the economies and foreign trade, investment and financial interactions with these countries. This can be accomplished in several ways. Four of the countries are already members of the GATT. While Bulgaria and the GDR are unlikely to join in the foreseeable future, Western countries should encourage this as a long-term objective of trade with these countries. All six countries should be encouraged to pursue discussions with the West on further trade liberalization through the GATT mechanism, to adhere to GATT rules and to bring any trade disputes to the GATT. These discussions could help to ease West European vulnerability to a cutoff in fuel imports and to reduce North America's vulnerability to a shutdown of one of its principal markets for agricultural exports.

On the financial side, the East has come to rely more on hard currency earnings from exports to the West to purchase the equipment it needs for growth. But credit has also become a major component of the expansion of trade. Outstanding Western loans to CEMA have reached nearly \$80 billion. This too is a two-edged sword. On the one hand, it has drawn the Eastern European countries into a closer working relationship with Western financial institutions. The countries of the East are individually vulnerable to a serious drop in mutual trade if they become a poor credit risk. They thus have strong incentives not to let this happen. On the other hand, there is considerable leverage in the opposite direction. Western banking institutions, and hence governments, may go a long way to accommodate a creditor rather than run the risk of default. This tendency may be accepted as long as the Eastern European countries are

subjected more and more to accountability based on accepted rules and procedures in the Western world. Unless this is done, Western trade and financial flows to these countries weaken their capacity to progress along sound and fruitful economic paths and also serve to alleviate the costs to the Soviet Union of maintaining its relations with these countries. For example, the Western countries should continue to pursue the question of IMF membership for additional countries of East Europe, e.g., Poland, Hungary, Czechoslovakia.

The Summit countries may wish to consider the need to establish on an ongoing basis a collective monitoring and review process to backstop trade and financial negotiations with Eastern European countries and to coordinate Western efforts to extend the influence of Western rules, procedures and institutions to economic relations with these countries.

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CY TO BRADY

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RVA:

I raised the issue of an East West, strategically oriented paper for the Ottawa Summit meeting and he emphasized that really only econ/trade issues were going to be discussed at that meeting. (You had indicated that such a paper should be prepared.)

Do you want to raise the issue directly with him?


Janet

No NSC papers should leave our realm without lateral input by other specialists here. How did he take it? Who was my release? Follow up, etc

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