WHORM Subject File Code: FO006-06 (Economic Summit, Williamsburg, Virginia, 05/29/1983-05/30/1983)
Case file Number(s): (150193) (3 OF 5)

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File Folder FO006-06 (150193) (3 OF 5)

FOIA F16-011 BIERGANNS

Box Number 101

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
244106	PAPER	DUPLICATE OF #104976; STENGTHENING COCOM AND AD HOC STUDY ON OTHER HIGH TECHNOLOGY INCLUDING OIL AND GAS	2	ND	B1

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

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

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THE WHITE HOUSE

WASHINGTON

SYSTEM II
90519

April 21, 1983

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BY dh NARA DATE 12/19/2017

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
THE DIRECTOR OF CENTRAL INTELLIGENCE
THE UNITED STATES TRADE REPRESENTATIVE
THE ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
THE CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

SUBJECT: Follow-up on NSDD-66 on East-West Economics for the Williamsburg Summit ~~(C)~~

The President has reviewed the progress to date in each of the respective East-West economic work programs (COCOM, IEA, OECD and NATO) under the supervision of the SIG-IEP and the interagency consensus achieved by the working group chairmen concerning the expected results in each of these fora by the time of the Williamsburg summit. To advance this process and concentrate interagency attention on achieving these minimum results between now and Williamsburg, they are provided below: ~~(C)~~

COCOM

-- Agreement to implement immediately controls on items as they are agreed during the List Review. ~~(C)~~

-- Agreement in principle to pursue the proposal for a new control list of "disembodied" technologies, with specifics to be developed as soon as possible. ~~(C)~~

-- Agreement to develop a "watch list" for monitoring emerging technologies of potential military significance by July. ~~(C)~~

-- Commitment to continued urgent technical work resulting in early agreement in the List Review on the high priority items: communications switching equipment, computer hardware and software, electronic grade silicon, and robotics. ~~(C)~~

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-- Agreement in principle, with action plan to develop several technical and administrative measures to improve the effectiveness of the COCOM secretariat (establishment of subcommittee of military and defense specialists, and upgrading equipment, staff and budget of COCOM Secretariat); agreement on plans for further measures to enhance national enforcement measures and harmonize national licensing procedures. (C)

-- Agreement to continue study as to whether Western security interests require controls on other high technology, including oil and gas, and agreement to report the results at a future meeting set by the high-level meeting.

-- Commitment to complete on priority basis the _ad hoc_ study on controlling other high technology items, including oil and gas equipment. (C)

OECD

-- Renewed export credit consensus which provides for automatic adjustment of interest rate guidelines to market conditions and reduces the amount of cover on credits or guarantees including elimination of official support for local cost financing. (C)

-- Significant progress in the assessment of the balance of advantages in East-West trade to deal better with Soviet monopsony power. (C)

IEA/OECD

-- Agreement to limit non-OECD gas imports from any one supplier to 30 percent of a country's total gas supplies. (C)

-- Encouragement of accelerated development of major Western alternatives, especially the Troll field. (C)

-- Undertaking security measures to protect against gas supply disruptions. (C)

NATO

-- Draw important conclusions from valuable new information made available on the security dimensions of East-West trade to guide us in formulating our policies in this area in the future. (C)

o Security and economic aspects of relations with USSR should be consistent and mutually reinforcing. (C)

- o Trade and other relations should be on basis of a strict balance of advantages. ~~(C)~~

- o Soviet economy should not be subsidized or preferentially aided. ~~(C)~~

- o West should not contribute through trade to Soviet military strength. ~~(C)~~

- o Strengthen efforts to protect Western interests as regards trade which could contribute to the strategic advantage of the Soviet Union. ~~(C)~~

- o Avoid undue dependence on USSR for resources important to Western strategic interests, such as energy, and actively encourage development of alternative Western resources. ~~(C)~~

-- Upgrade and strengthen the Economic Committee to continue its work in this area in the future. ~~(C)~~

It is the President's intention that this list clarify the specifics of his objectives and provide direction for a concerted interagency effort to achieve them between now and Williamsburg. It should also be remembered that Williamsburg was established by NSDD-66 as a benchmark for progress but does not represent the end of this vital work in East-West economic relations. He expects, in most cases, that these work programs will be vigorously pursued in the post-Williamsburg period, particularly in COCOM and NATO. ~~(C)~~

FOR THE PRESIDENT:

W. Clark

William P. Clark

11

FINDINGS OF WORKING GROUP

AGREED POINTS OF FACT	ACTIONABLE UNDER SECTION 301?	CREDIBLE GATT COMPLAINT?
Protection of Japanese Market		
Japanese maintained quantitative restraints on machine tool imports until 1968.	NO	NO
Barriers to direct foreign investment in the machine tool sector, among others, were in place until 1973.	NO	NO
* Domestic subsidies exist as a form of protection of Japanese market.	YES	YES, under Article 23 (non-violation nullification and impairment)
GOJ Support & Direction for NC Machine Tool Industry		
* Under the latest Extraordinary Measures Law enacted in 1978 and valid until 1985, MITI mandates precise quantitative objectives for the machine tool industry including, production specialization, production cartelization, defacto antitrust immunity, research collaboration, specific production targets and export targets.	YES	YES, under Article 23 (non-violation nullification and impairment)
Concerted Activity by the Machine Tool Industry		
* Industry wide plans drafted by the Japan Machine Tool Builders Association (the last formal agreement ended in March 1982, but continues to operate informally) require member firms to: concentrate production in machines which constitute more than 5% of their market and more than 20% of their production, observe monthly production guidelines, provide notification in advance of intention to market new products, and gain approval of "technical tie ups" with foreign firms.	YES	YES, under Article 23 (non-violation nullification and impairment)
* **Financial Assistance (Subsidies, MITI Financing Commitments and Tax Incentives) Provided by the GOJ**	YES	YES, under Article 23 (non-violation nullification and impairment) or under Article 16 (prohibition against subsidies seriously prejudicial to the trade or interests of contracting party)

* Indicates an ongoing act, policy or practice. The working group concluded that past acts, policies or practices are not actionable under Section 301.

POINTS OF FACT AGREED UPON BY HOUDAILLE WORKING GROUP

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Protection of the Japanese Market

o Quantitative restrictions on imported machine tools existed in Japan until 1968.*

o Barriers to direct foreign investment in the machine tool sector, among others, were in place in Japan until 1973. It was not until 1980 that a foreigner could invest without asking for permission from the Japanese Ministry of Finance.*

o Despite a negotiated reduction in Japanese tariffs on NC machine tools (from 25% in 1975 to 0% in 1982 on many items), U.S. exports of machine tools to Japan have remained virtually unchanged in value terms from levels prevailing before the tariff reductions. (This may reflect increased Japanese competitiveness, or it may indicate substitution of other means of protection).

o In 1963, when Japan began to implement measures to liberalize the machine tool industry, MITI took steps which it said were aimed at counteracting the effects of liberalization.

GOJ Support and Direction of the Japanese NC Machine Tool Industry

o Three Extraordinary Measures Laws" (1956, 1971, and 1978) (the last law is currently in effect) directed MITI to develop "rationalization plans" for furtherance of automatic control and other improvements in performance of machines by combining electronic computers and other electronic devices into the machines" and to instruct industry to cooperate in the plans' implementation. The implementation of these plans is mandated by law. Penalties for failure to comply with the overall industry plan are provided.

o Pursuant to these laws MITI has issued "Rationalization/ Promotion/Elevation" plans. These spell out precise, quantitative objectives for Japan's machine tool industry, including production centralization, product specialization, export goals, defacto antitrust immunity, specific production goals, research collaboration, and product standardization. Specific performance targets are linked to budgetary figures which were worked out in close collaboration with the industry.

GOJ Financial Assistance to the Machine Tool Industry**

o Subsidies: At least $100 million of the $1 billion generated each year by the bicycle races is channeled into the machinery industry. It is not possible to establish what portion of the $100 million was funneled into the NC machine tool industry.

* No longer an ongoing practice.
** These measures are not generally available to all industries.

Some portion of the remaining $900 million, although the amount cannot be determined, is used for the benefit of the machinery and NC machine tool industry.

- MITI Financing "commitments": The Extraordinary Measures Laws make MITI responsible for assuring that necessary financing would be available to realize plan objectives. During the period 1957-78, MITI issued eight elevation plans calling for expenditures of $804 million to promote development of the machine tool industry. According to MITI, these funds are to be obtained through "indirect methods such as guarantees on obligations by government-related organs" as well as "direct methods", including "subsidies, loans, etc from funds for public finance". One vehicle used for this purpose is facilitating bank loans. At least $121 million was secured through "direct methods" in JFY 1979.

- Tax Incentives: Based on Ministry of Finance figures of estimated revenue losses associated with the sixteen measures specifically geared to the machine tool and other selected machinery industries, benefits accruing to the machinery industry probably totaled $40 billion, of which $4-6 billion accrued to the machine tool industry, in the period 1950-1981.

Concerted Activity by the Japanese Machine Tool Industry

- The Japan Machine Tool Builders Association took charge of the machine tool industry's compliance with Japanese government objectives. Industry-wide plans were written in three successive industry agreements ((1960, 1969, 1971) (the last agreement formally ended in March 1982 but continues to operate informally)) which require member firms to concentrate production in machines which constituted more than 5% of their market and more than 20% of their production; observe monthly production guidelines on 12 specific machines; achieve product targets by "rearranging" among group members, provide that the number of member companies manufacturing each machine did not increase; share technology acquired from foreign firms; gain group approval for prospective "technical tie-ups" with foreign firms and; notify the Association in advance of any intention to market new products (and obtain) "comments" from Association members.

Damage to the U.S. Domestic Industry

- Japanese machine tools being sold in the U.S. are priced as much as 40% below comparable U.S. products.

- NC machining centers imported from Japan increased from 35 units in 1978 to 1944 units in 1981.

- The rapid rise in exports to the U.S. parallels a sharp drop in sales in Europe. In January, 1983, Japan concluded a VRA with the E.C.

- o In 1978, Japan filled only 2% of the U.S. market for NC machining centers; this figure jumped to 53% in 1981 and 60% in 1982. A similar trend is observed for NC turning centers, where Japanese penetration of the U.S. market was 57% in 1981.

- o In part because of declining domestic demand and in part because of rising import penetration, capacity utilization in the U.S. machine tool industry is now at 40% compared to 65% for the domestic machinery industry overall.

- o All segments of the U.S. machine tool industry are losing ground. In 1981, for six leading U.S. manufacturers total net earnings declined 7%; in the first 6 months of 1982, total net earnings plummeted 26% compared to the same period a year earlier and; total cash flow declined 3%.

- o Estimates for Japanese NC machining centers currently in inventory in the U.S. range from 640 (Japanese estimate) to 2400 (Houdaille's estimate). If the figure fell midway between the two, i.e., there were 1520 Japanese-made NC machining center investment in the U.S.; this would be equal to about 6-8 months of U.S. consumption.

APPLICATION OF AGREED FACTS TO LAW

The working group concluded that, for purposes of the Houdaille matter, in order to make a case under Section 301 of the Trade Act of 1974, the following must exist:

(1) Any act, policy or practice that

(2) (A) Is inconsistent with, or denies benefits to the U.S. under a trade agreement (GATT) .

<u>or</u>

(B) Is unreasonable and burdens or restricts U.S. commerce.

POSSIBLE SECTION 301 FINDING

Based on the agreed points of fact and law, (see chart) and the breadth of Presidential authority under Section 301, the working group agreed that a finding under Section 301 would be legally defensible. An example of a possible finding follows:

> "I have determined that the GOJ is pursuing a policy whereby it has assisted the NC machine tool industry for purposes of development as a supplier to both the Japanese and world market in a manner which has resulted in the denial of U.S. benefits under a trade agreement. In implementing this policy, the GOJ is engaging a variety of trade distortive acts which have resulted in nullification or impairment of U.S. benefits under the GATT."

The working group could not reach a consensus that as a matter of policy a Section 301 finding should be made despite the fact that such a finding is legally defensible.

The following policy reasons were cited in opposition to the Section 301 finding:

1. Section 301 should not be used on the basis of a judgment that Japanese practices nullify or impair U.S. benefits under GATT, without proceeding through the GATT dispute settlement mechanism.

2. A Section 301 finding in this case would encourage other cases because it would be precedent setting.

3. If the unfair trade practices of the Japanese are limited to financial and tax subsidies, countervailing duty law rather than Section 301 should be used. A Section 301 finding would be interpreted as labeling MITI's role in directing Japanese industry as an unfair trade practice.

4. A Section 301 finding could amount to a condemnation of Japan's industrial targeting system and have an adverse effect on U.S.-Japan economic relations. A Section 301 finding would amount to a unilateral interpretation of what is the appropriate role of governments in their conduct of economic policy.

The following policy reasons were cited in support of a Section 301 finding:

1. Failure to use Section 301 will eviscerate the statute, and fuel the argument that existing trade laws are inadequate to protect U.S. industry from unfair trade practices.

2. A Section 301 finding is necessary to make clear our serious concern with Japanese industrial targeting and would encourage Japan to review seriously the trade impact of its policies. Failure to make a finding under Section 301 is inconsistent with USTR's message to Yamanaka and will therefore undermine the credibility of U.S. negotiators in dealing with Japan.

3. Section 301 gives us the latitude to consider a wide range of possible remedies.

4. A Section 301 finding (even without subsequent action) would introduce an element of uncertainty in the Japanese industry targeting process. This would diminish MITI's influence and make industrial targeting less attractive to Japanese industry and less likely to occur.

It was suggested, and several members of the group agreed that whether or not there is a Section 301 finding, there should be a strong statement by the Administration (implicit in the case of the finding) expressing serious concern about the adverse impact of Japanese industrial targeting on U.S. industry. In addition, the Administration would take some combination of the following actions:

- A call for open and frank discussions with the Japanese on the whole issue of industrial targeting.
- A self-initiated Section 201 injury investigation.
- A countervailing duty investigation.
- The filing of a complaint in the GATT.

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SYSTEM II:
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April 28, 1983

~~CONFIDENTIAL~~

MEMORANDUM FOR THE WHITE HOUSE SUMMIT GROUP

SUBJECT: Give-and-Take Session with the President
April 29, 1983, 10:00 a.m., Cabinet Room

Attached is the background paper sent to the President for the give-and-take session on Summit issues, April 29, 1983, at 10:00 a.m., Cabinet Room. Also attached is the agenda for the meetings. There will be an unusually large number of participants at this meeting because of the diversity of topics to be covered.

William P. Clark

Tab A Background paper

cc: The Vice President
Kenneth Dam
Donald Regan
Edwin Meese
James Baker
Michael Deaver
Beryl Sprinkel
Allen Wallis
Mark Leland
David Gergen
Edwin Harper
Craig Fuller
Richard Darman
Michael McManus
Charles Tyson
Henry Nau
Roger Robinson
William Martin

1. Pipe line IEA - no 2nd stand-in a real victory. - good statement.

2. OECD

3. PM Nakasone 5/27/83 - Noon
PM Thatcher 5/27/83 - Lun

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12

TAB A

Energy Requirements Study

U.S. Objectives

-- Agreement to limit non-OECD gas imports from any one supplier to 30 percent of a country's total gas supplies.

-- Encouragement of accelerated development of major Western alternatives, especially the Troll field.

-- Undertaking security measures to protect against gas supply disruptions.

Background

The IEA Secretariat has nearly completed the Energy Requirements and Security Study requested by Secretary Shultz and other NATO Foreign Ministers in December.

The study examines the energy security situation for all major fuels, but concentrates on oil and gas. On gas, the study clearly shows that the security outlook for Western Europe depends on the source of needed incremental gas supplies in the 1990's.

The IEA and OECD have been discussing "policy conclusions" to the Energy Requirements Study. These conclusions are to be adopted at the IEA and OECD Ministerial meetings in early May, and should serve as a basis for Summit discussions on this topic.

At the IEA Governing Board April 27, a clean text of policy conclusions was agreed upon for presentation to IEA Ministers May 8 and OECD Ministers May 8-9. The policy conclusions (full text not available in Washington by COB April 27) break new ground in several respects and constitute a framework of qualitative and consultative obligations that would operate to limit the Soviet Union's future role in the European gas market. The policy conclusions also include sections on oil, coal, nuclear, pricing and efficiency.

Problems and Summit Partner Positions

Other IEA and OECD countries have not been willing to accept a policy conclusion flatly stating that countries agree to limit non-OECD gas imports from any one sources to 30 percent of a country's total gas supplies, but they do accept as valid our concerns about monopoly power, risks associated with high levels of dependence on single suppliers, and the effects of additional Soviet imports on the development of indigenous resources.

Opposition to an explicit 30% limit is broadly-based, with both Summit and non-Summit countries objecting. Some of the expressed and implied concerns, with the countries most involved, are as follows:

-- 30% is "arbitrary", and takes no account of country variations (FRG, Switzerland);

-- certain countries already far exceed 30% (Japan, Spain, Austria);

-- specific countries expect to exceed 30% limit in the years ahead (Portugal, Sweden, Italy);

-- countries fear the 30% limit will be seen, or be characterized by the U.S., as directed at Soviet gas exports (FRG, Sweden, Austria, Switzerland); and

-- the 30% limit is seen as an encroachment on sovereign policy control (France, FRG, Italy).

The French, as always, are a special case. They recently told Allen Wallis that, while they remain opposed to 30%, they may be able to join in an IEA commitment in the form of the OECD "noting" or even "endorsing" what the IEA works out.

Prospects

At the IEA Governing Board April 27, an inter-agency delegation (State, NSC, DOE and Treasury) worked out package of policy conclusions for consideration by the IEA Ministerial. The USG will need to examine the draft when available in Washington.

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ID	*Document Type* *Document Description*	*No of pages*	*Doc Date*	*Restric-tions*
244106	PAPER DUPLICATE OF #104976; STENGTHENING COCOM AND AD HOC STUDY ON OTHER HIGH TECHNOLOGY INCLUDING OIL AND GAS	2	ND	B1

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OECD Export Credit Arrangement: Harmonization

US Objectives

-- Renewed export credit consensus which provides for automatic adjustment of interest rate guidelines to market conditions and reduces the amount of cover on credits or guarantees including elimination of official support for local cost financing.

Background

The OECD Export Credit Arrangement regulates the terms and interest rates that can be offered on official export credits. We have used this agreement successfully in the past to reduce wasteful competitive subsidies on a worldwide basis. Because of the presence of neutrals and resistance to our East/West initiatives by some participants -- particularly the French -- we have avoided putting our proposals in an overt East/West context. Assistant Secretary Leland (Treasury) is heading a delegation to the April 25-27 negotiating session.

In the Arrangement negotiations last year we significantly tightened credit terms to the Soviet Union by: (1) reclassifying the Soviet Union as a Category I Country (relatively rich), and (2) increasing the minimum interest rates for all categories of countries. The interest rate for the Soviet Union went from 8.5 percent to 12.4 percent. Since that time, world market interest rates have fallen significantly and under current OECD minimum rates, only France and Italy among the major countries are able to provide any official export credit subsidies to the Soviet Union.

Problems and Summit Partner Positions

The Canadians, Japanese, and Nordics strongly support most of our proposals. The EC countries, which negotiate as a bloc, will be the most serious obstacle.

Within the EC, the French have been the most adamant opponents of automatic adjustment and high minimum interest rates. France is concerned about competition with low German market interest rates to the Soviet Union and claim they have made few sales to the Soviet market since interest rate minimums were revised last year.

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The EC has not reached agreement on our proposals to tighten the terms to Category I. Greece and Ireland, which are classified as Category I countries and want to receive favorable export credit terms, prevented an EC consensus at the last Ministerial meeting. In addition, France has a trade protocol with the Soviet Union (expiring at the end of 1984) which may bind the French. Under these circumstances, France opposes an increase in the minimum down payment and tighter restrictions on maturities. If the French could be brought along, the British and Germans would probably accept some more restrictive terms on Category I.

Prospects

Given the large gulf between the US and EC positions, the negotiations are unlikely to be concluded at the April 25-27 session. The current terms of the Arrangement will probably be extended to allow time for further discussions.

The outcome of an eventual settlement is far from clear. The French have threatened to leave the Arrangement unless their demands for lower interest rates are satisfied. Although we consider this eventuality unlikely, a breakdown of the Arrangement would sharply increase the use of competitive subsidies on a worldwide basis, including Eastern Europe and the Soviet Union.

With market interest rates for most of the major countries well below the current 12.4 percent minimum for Category I, we have some room for lowering minimum rates in exchange for automatic adjustment of rates to market conditions.

We hope that negotiations can be substantially wrapped up by the Summit. If not the threat of a breakdown of the Arrangement could become an unexpected item of major contention.

13

TAB B

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GIVE AND TAKE SESSION
ON SUMMIT ISSUES

<u>East-West Economic Relations</u>

April 29, Cabinet Room
10:00 - 10:30 a.m.

1. Summary and Elaboration of Background Paper (6 minutes) — Acting Secretary Dam

2. Interventions (2 minutes each)

   a. Energy security - objectives and prospects — William Martin

   b. Credits to the USSR - objectives and prospects — Mark Leland

3. General Discussion with the President (13 minutes)

4. Results of Recent Bilateral Consultations (2 minutes) — Allen Wallis

5. Summary and Upcoming Events (5 minutes) — William P. Clark

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~~CONFIDENTIAL~~

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BY ndw NARA DATE 12/19/2019

President's Priorities for Williamsburg Summit

The President is looking forward to the Williamsburg Summit with four priorities in mind:

1. First, secure broad recognition that our concern with economic progress is not primarily a matter of material gains, but is one of the consequences of our system of individual freedom and economic opportunity and is also an important source of our capability to provide for the security of the free world.

   -- Security commitments regarding missile deployments and arms control negotiations reflect our concern for freedom and peace, and are reinforced by improved economic circumstances and cooperation among the Summit countries.

   -- The common approach taken by the allies to East-West economic relations in the IEA, OECD and NATO are good evidence that this recognition is growing.

   -- In the interest of the free world's security we will work with our allies to restrict the flow of high technology product and knowledge which has a clear and important military application to the East.

2. Very real progress has been achieved in beginning the economic recovery.

   -- The Summit countries are beginning a common economic recovery.

   -- The Summit countries' economic policies are more on a converging path than they have been in some time.

   -- The economic recovery will be spreading to other industrial countries and the developing countries.

3. Only a durable recovery can help Europe, where unemployment has increased for eleven straight years, and the developing countries, who will have heavy debt obligations for the rest of this decade.

   -- Artificially stimulating the recovery may only increase expectations of inflation, which already remain high because of lingering concerns about government spending and excessive money creation.

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-- Acting with steadiness and consistency across a range of policy areas that exploit linkages between the domestic and international economies and reinforce the impetus to growth means:

.. bringing inflation down in all countries so as to achieve greater stability in exchange rates.

.. reversing recent protectionist measures so growth can spread to other nations, both industrial and developing.

.. supporting the international financial system so as to maintain vital trade, particularly for the heavily indebted countries.

-- A durable recovery requires a longer-term perspective to guide current domestic policy actions and to improve the international trading and financial system:

-- Encouraging convergence of domestic economic performance around low inflation and higher output in a medium-term perspective (2-3 years), thereby ensuring greater international monetary stability.

-- Continuing ad hoc discussions of the relationships between trade and financial issues to encourage over time further liberalization of trade in the GATT, particularly with developing countries, and to seek improvements in the international financial system.

-- Continued emphasis on fundamental adjustments in both industrial and developing countries to adapt new technology, retrain workers and reduce inefficiency.

4. If the recovery is to be an enduring one bringing real economic growth and increased employment, we must avoid the lure of quick fixes and single solutions to complex problems. In particular, we must avoid a new round of world wide inflation.

H

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THE WHITE HOUSE

WASHINGTON

April 30, 1983

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MEMORANDUM FOR THE WHITE HOUSE SUMMIT GROUP

SUBJECT: Give-and-Take Session with the President
May 2, 1983, 11:00 a.m., Cabinet Room

Attached is the background paper sent to the President for the give-and-take session on Summit issues, May 2, 1983, at 11:00 a.m., Cabinet Room. Also attached is the agenda.

WPC

William P. Clark

Attachment
Tab A - Background Paper
Tab B - Agenda

cc: The Vice President
Donald Regan
Edwin Meese
James Baker
Michael Deaver
Beryl Sprinkel
Allen Wallis
Mark Leland
David Gergen
Edwin Harper
Craig Fuller
Richard Darman
Michael McManus
Charles Tyson
Henry Nau

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meet w/ A. Wallis
discuss sanctions
then set up a meeting.

Summit Preparation Group
Dearus

Jim Rentschler - Public Communications Strategy

1. Develop overall strategy paper w key themes
2. Comprehensive inventory of people event that might support the Williamsburg summit themes through June 1st. The week before the summit is key: who at Cabinet level is doing what.
3. Developing Group One Page Papers - Jobs, Growth etc. on P's positions, for distribution to Press.
4. Congressional Strategy [No open hearings before the summit. Briefing on Substance at Williamsburg mid May
5. Multi Purpose Speech
6. Overseas Visit Team to Sensitize USIA teams in Summit Capitals.

Need a crisp one page statement of objectives for the summit:

1. Mark Progress over the past year.
2. Not How strong how durable.
3. Act across a range of policies - Trade finance
4. Progress is more than material gain - Values + security.

D. Dorman will circulate this today.

Meet again next Tuesday 4pm - To be confirmed.

NATO Security Dimension of East-West Economics - Study went well.

IEA meeting went very well

Simulated Discussion for the P.

14

TAB A

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

April 22, 1983

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Williamsburg Summit Preparatory Session on Foreign Exchange Market Intervention

Attached is a background paper discussing foreign exchange market intervention policy. It summarizes the views of other Summit countries, the results of the intervention study agreed at Versailles, and U.S. intervention policy. This will be the subject of our preparatory session on Monday, April 25.

DTR

Donald T. Regan

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Attachment

Foreign Exchange Market Intervention Policy

In Williamsburg, you may be pressed by some of your Summit leagues to agree to intervention by the United States to smooth short-term exchange rate movements, or even to change basic exchange rate levels or trends. We do not believe there are economic reasons for the United States to intervene for either of these purposes:

-- We have no reason to think that short-term exchange rate fluctuations are a real economic problem.

-- Intervention is simply not capable of changing rate levels or trends.

This is essentially confirmed by the exchange market intervention study agreed to at Versailles (in response to a U.S. proposal). The study concludes:

-- Intervention can have a modest, transient impact on exchange rates; but it is basically incapable of changing underlying trends, and attempts to use it for this purpose can be counterproductive.

-- It is possible for governments to affect exchange rate levels or trends -- but to do so they must make significant changes in basic economic policies.

-- If countries are going to intervene, "coordinated" intervention by two or more countries has a bigger impact than the same amount of intervention by a single country; but there are no better economic reasons for this type of intervention.

Moreover, there are potential economic costs to increased U.S. intervention in foreign exchange markets.

-- It would be an attempt to have the judgement of government officials override the workings of a large and efficient market.

-- It would distract attention from the task which policy makers should <u>really</u> be focusing on: getting stable and non-inflationary policies in place, and thus bringing about stability in the fundamental determinants of exchange rate behavior.

-- It would be a waste of the taxpayers' money.

-- If we began intervening more often, even on a limited basis, it would be difficult to keep this from slipping into frequent and large-scale intervention.

-- Frequent or large-scale intervention could actually destabilize markets.

Therefore, we believe the United States should maintain the basic thrust of current U.S. policy: intervening only to counter "isorderly" conditions in exchange markets. We should keep any scussions strongly focused on the principle that stability in the underlying economic and financial conditions in major countries is the real basis for exchange rate stability (a principle on which all have agreed). The "multilateral surveillance" process, underway since agreement at the Versailles Summit, is designed to bring about convergence toward sustained, non-inflationary economic growth as a primary means of stabilizing exchange markets.

The views of our Summit partners on intervention vary widely, with:

-- the French and EC pressing for frequent large-scale intervention to fix or manage exchange rates;

-- the Canadians, Germans and British arguing that intervention itself is not very important, but that some show of greater U.S. willingness to intervene would help settle markets; and

-- the Italians and Japanese somewhere in between.

The intervention study and the general topic of intervention 'll be discussed by Finance Ministers in Washington on April 29. e hope that the meeting will be able to agree on a joint public statement which defuses the issue and avoids a confrontational discussion at the Summit. We will discuss this with you on Monday, April 25.

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TAB B

GIVE AND TAKE SESSION

ON SUMMIT ISSUES

Exchange Market Intervention Policies

May 2, Cabinet Room

11:00 - 11:30 a.m.

1.	Results of Summit Finance Ministers' meeting of April 29 (2 minutes)	Secretary Regan
2.	Other Countries' Positions at Williamsburg (2 minutes)	Beryl Sprinkel
3.	Yen/Dollar Misalignment ? (2 minutes)	Martin Feldstein
4.	General Discussion with the President (17 minutes)	
5.	Results of April 28-29 COCOM High-Level Meeting (2 minutes)	William Schneider
6.	Summary and Next Steps (2 minutes)	William Clark

STATEMENT ON THE INTERVENTION STUDY
By Summit Finance Ministers

On Friday, April 29, the Summit Finance Ministers, Central Bank Governors, and Representatives of the European Community met in Washington, D.C. and issued the following statement:

Exchange rate fluctuations and their effects on economic performance and international trade have been a matter of concern in each of our countries, and to the international financial community, since 1973, when the transition to widespread floating of exchange rates took place. At the first Economic Summit in Rambouillet, and most recently at last year's Versailles Summit, our governments agreed on the principle that orderly underlying economic and financial conditions are necessary to achieve stable exchange markets. Our governments pledged themselves to pursue economic policies designed to foster convergence in the economic performance of our countries, toward sustainable non-inflationary economic growth and high employment, as a primary means of attaining such conditions.

However, greater convergence toward economic performance of that kind takes time to accomplish and may not always be sufficient to prevent disorderly market conditions. Views have differed among us on the role of foreign exchange market intervention as an additional means of attaining greater exchange market stability, and our practices in this regard have differed widely from country to country and over time. In order to take stock of our experience with foreign exchange market intervention over the decade of floating exchange rates, and to gather evidence on the impacts of such intervention in the past, an international study of the topic was commissioned at the Versailles Summit.

This study, carried out by a working group of officials from our finance ministries and central banks, was completed in January, when the working group submitted its report to our Deputies for review. The scope of the study was limited, as far as possible, to the impacts of intervention. Since that time, the Deputies have discussed its policy implications; their discussions have not been limited to intervention alone. We in turn met this afternoon to review both their points of agreement and the policy issues which remained under active discussion.

We regard the working group's report as a significant and useful addition to the body of information and analysis on this topic, and are therefore making it public today. It distills a great deal of evidence and spans a number of points of view. Our policy-oriented discussions, based on the report, have already resulted in major improvements in our mutual understanding of issues, concepts and objectives related to exchange rate policy and foreign exchange market intervention.

We have reached agreement on the following:

A. The achievement of greater exchange rate stability, which does not imply rigidity, is a major objective and commitment of our countries.

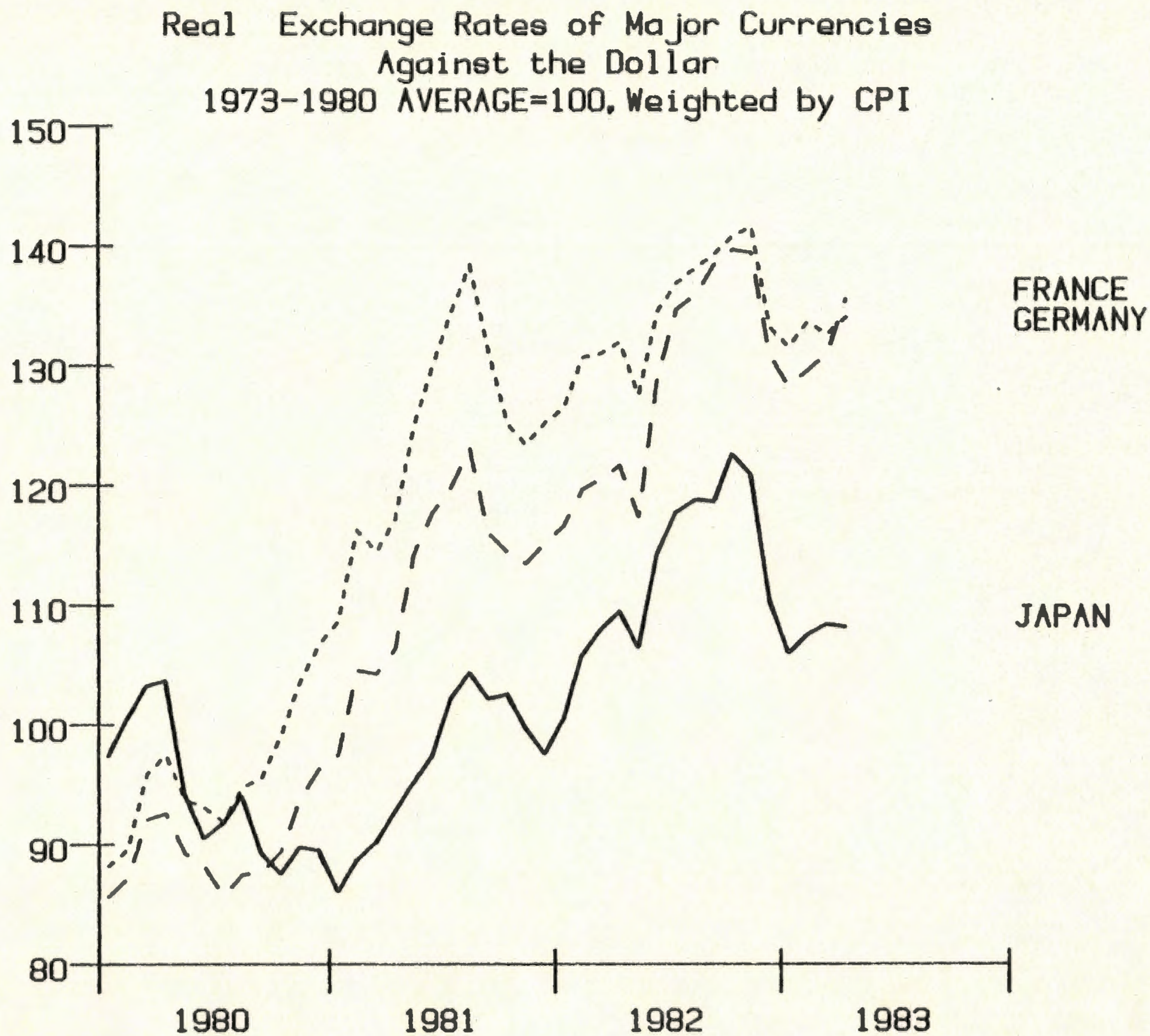
B. The path to greater exchange rate stability must lie in the direction of compatible mixes of policies supporting sustainable non-inflationary growth. This will be the primary objective of a strengthened multilateral surveillance as agreed in Versailles.

C. In the formulation of our domestic economic and financial policies, our countries should have regard to the behavior of our exchange rates, as one possible indication of need for policy adjustment. Close attention should also be given to the interactions and wider international implications of policies in each of our countries.

D. Under present circumstances, the role of intervention can only be limited. Intervention can be useful to counter disorderly market conditions and to reduce short-term volatility. Intervention may also on occasion express an attitude toward exchange markets. Intervention will normally be useful only when complementing and supporting other policies. We are agreed on the need for closer consultations on policies and market conditions; and, while retaining our freedom to operate independently, are willing to undertake coordinated intervention in instances where it is agreed that such intervention would be helpful.

Washington, D.C.
April 29, 1983

Still large areas of disagreement
e.g. Japanese will propose bands w/n which exchange rates would operate.


Real Exchange Rates of Major Currencies
Against the Dollar
1973-1980 AVERAGE=100, Weighted by CPI
150
140
130
120
110
100
90
80
1980
1981
1982
1983
FRANCE
GERMANY
JAPAN