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244184	PAPER	DUPLICATE OF #244185	2	ND	B1

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May 24, 1983

MEMORANDUM FOR RICHARD DARMAN
CRAIG FULLER
DAVE GERGEN
LARRY SPEAKES
ROBERT MCFARLANE
CHARLES TYSON
HENRY NAU
ROGER ROBINSON
JIM RENTSCHLER
DENNIS BLAIR

SUBJECT: Briefing of the President for the Williamsburg Summit, Wednesday, May 25 - 9:30-12:30 and 1:45-4:45

You are invited to attend the briefing sessions referenced above. Attached for your information are the briefing materials for tomorrow's sessions.

It is requested that seating at the Cabinet table be limited to those listed as participants in the briefing schedule.

Michael K. Deaver
Assistant to the President
Deputy Chief of Staff

William P. Clark
Assistant to the President
for National Security Affairs

Attachment

DECLASSIFIED
Sec.3.4(b), E.O. 12958, as amended
White House Guidelines, Sept. 11, 2006
BY NARA dh DATE 12/19/2019

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Declassify on: OADR

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SUNDAY MORNING "HEADS-ONLY" SESSION

WORLD ECONOMIC RECOVERY

A. Techniques

B. Opening and Closing Remarks

C. Contingency Talking Points

D. Objectives Checklist

YOUR ROLE AS CHAIRMAN OF THE SUMMIT

Sunday Morning Heads Only Session

Topics: World Economic Recovery - Themes, Assessment and Commitments

Time Allotted: 9:00 - 11:30 a.m.

Objectives:

-- conduct general, elevated discussion (avoid details) on individual and common approaches to sustained recovery

-- secure consensus on general theme, tone and structure of the joint statement (as close to the thematic paper as possible)

-- identify issues of special interest for discussion with Ministers in the afternoon

Techniques:

-- suggest at outset desire for discussion of general approaches, identification of broad themes, tone and structure for joint statement and your intent to summarize at the end

-- lead off with your own statement emphasizing common interests (avoid arguing any contentious points at the beginning)

-- turn to Mitterrand to continue discussion (puts him in the position of starting contentiousness if he is so inclined)

-- do not answer Mitterrand, but guide discussion, if possible, to Kohl and Thatcher who will oppose Mitterrand's points if necessary

-- as each leader speaks, check off points on your thematic paper outline as they are raised and any notations that may be appropriate

-- after all leaders have spoken, ask for discussion on points that have not been raised (e.g., ask Mitterrand if he has any comments on technology - will flatter him) or focus discussion on points of difference that need further explanation

-- break for 10 minutes or so at an opportune point and have coffee or tea served.

-- summarize at the conclusion what has been said highlighting areas of agreement, especially for joint statement. Ask others for comments on your summary and clarify or modify as necessary.

-- agree on how all countries will represent the morning meeting to the press

<u>Things to Watch Out For</u>:

-- topics that were not presented in the preparations and do not appear in the thematic paper

<u>Late Sunday Morning Session with Foreign Ministers</u>

Topic: Summarize Morning Heads Only Session for Foreign Ministers

Time Allotted: 11:30 - 11:45 a.m.

<u>Objectives</u>:

-- provide a common summary of the morning's discussion to Foreign Ministers for purposes of briefing the press

<u>Techniques</u>:

-- repeat your summary from the conclusions of the morning heads only session

Sunday, May 29 - 9:00 - 11:30 a.m. - Heads Only

Objectives for this Session

-- To establish the positive tone for the Summit discussions and joint statement.

-- To seek agreement on a medium-term strategy for achieving a balanced sustained, non-inflationary recovery.

-- To identify potentially contentious issues from other participants.

-- To conclude the session with consensus on the essentials and understanding on points of difference.

-- To secure consensus on the themes of interrelationship and realistic optimism for the joint statement.

President's Opening Remarks

Values

-- Before economic discussions we should emphasize this Summit brings together countries with common dedication to liberty, democracy and the individual. The importance of these bonds overshadows trade and exchange rates.

-- Our common prosperity is more than material gain, it is the reflection of our most important shared values of individual freedom, personal creativity, moral purpose and human dignity, and the guarantee of our common strength in defense of these basic values.

-- Economic progress in past year in the U.S. and elsewhere reflects the determined efforts of both governments and the significant sacrifice of our people to rid our economies of a decade of stagflation and mounting unemployment.

-- We want this summit to be known as the "Recovery Summit." Our tone should be optimistic, not just on economic recovery, but about our societies. Our democratic societies have been through a severe test and have shown the resilience to make the sacrifices necessary for a sustained, non-inflationary recovery.

U.S. Recovery

-- U.S. recovery underway (rise in GNP, consumer spending, modest unemployment downturn); other countries are also into recovery.

-- Problems remain: Interest rates still too high; budget deficits still too large; more capital investment and technological development needed.

-- To bring down future budget deficits and to counteract inflationary expectations causing high interest rates, we are pursuing a standby tax plan. To encourage investment we have passed tax measures which encourage capital formation.

-- We are also encouraging stable and moderate monetary growth.

-- Most important, we need more jobs for our citizens.

-- Our employment bill is designed to rebuild old infrastructure -- roads, bridges and dams. Our job training programs are structured to train people for the jobs of the future, not the past.

-- But the real key to unemployment is a wide, deep, sustained, non-inflationary recovery.

International Recovery

-- I would like to outline our approach to world economic recovery.

-- Our approach is balanced - it recognizes the relationships between our domestic prosperity and international trade; between convergence of economic perforamance and stable exchange rates; between trade and finance; between economic prosperity and security.

-- No single policy or action that will cure our economic ills. We must act on a broad front and take advantage of key interrelationships in the world economy.

-- The world is looking to this meeting for reassurance that this recovery will not be like other recent ones, that we have a consensus on nurturing and sustaining a non-inflationary recovery over a period of several years, avoiding short-term "quick fixes," and setting a firm long-term course that will bring prosperity and jobs.

-- Only a durable recovery will make any dent in the cummultative unemployment we have inherited from the past. This is especially true for Europe, where unemployment is still increasing.

-- Hence we must not abort recovery through inflation as we encourage growth through our policies we must maintain the fight against inflation to achieve lower interest rates, and more stable exchange rates.

-- We must reverse protectionism and begin to work to achieve further trade liberalization, so that prosperity can spread.

-- We must support the international financial system and strengthen world economic cooperation and institutions.

-- Finally, we must always keep in mind the security dimension of our economic relations with the East, so as not to make our defense tasks more difficult.

President's Closing Remarks

-- We have had a good general discussion this morning. In a few minutes, we will call in our foreign ministers and personal representatives to tell them what happened. I would like to sum up a few key points.

-- I think we agree that the message we send from Williamsburg should be one of confidence and realistic optimism.

-- We should emphasize that our approach to recovery is a balanced, medium-term plan to achieving sustained, non-inflationary economic growth.

-- We have stressed interrelationships and policies of growth, trade and finance that mutually reinforce one another.

-- I believe that in our joint statement we should reflect these ideas in the introduction, and then go on to talk about some of the more specific actions we will call for in individual specific areas, both immediate actions and longer term.

-- We have discussed some of the specifics this morning; this afternoon with our ministers and personal representatives we will discuss others in more detail.

(Foreign ministers and personal representatives enter room and President summarizes the morning session. Secretary Shultz will then brief the press.)

Domestic Policy/Multilateral Surveillance/Intervention

Objectives for this Topic

-- To agree that fundamental national economic performance (inflation rates, interest rates, monetary policy) determine exchange rates;

-- To agree to continue the multilateral surveillance process begun at Versailles as the best mechanism to bring about the convergence necessary for exchange rate stability.

-- To deflect French proposals for a new Bretton Woods conference to fix exchange rates.

President's Talking Points

-- We all must continue to pursue policies to reduce budget deficits, especially by reducing expenditures, to lower inflationary expectations and high interest rates.

-- We must pursue appropriate non-inflationary growth of money supplies to achieve and maintain low inflation and interest rates.

-- The study that we commissioned at Versailles showed that fundamental national economic performance determines the exchange rates between countries.

-- The study also showed that exchange rate intervention can only be a limited tool in the short term, but is most effective when done in a coordinated way by mutual agreement.

-- (In response to proposal from Mitterrand for international monetary conference, let Kohl and Thatcher speak first) A conference is an interesting idea, but I believe it is premature. What we really need to to continue our efforts, begun at Versailles, to reach better convergence of economic performance.

-- In this connection, we should publish as an annex to our joint statement, the excellent statement the finance ministers have prepared on strengthening economic convergence.

Talking Points for Individual Topics

Trade

Objective for this Topic

-- To gain agreement that a strong worldwide recovery and prosperity for the LDCs depends on trade.

-- To gain agreement on a commitment to combat protectionism as the worldwide recovery proceeds.

President's Talking Points

-- In difficult economic times we all feel increased domestic pressures to protect our own businessmen and workers.

-- We have all had to compromise as a result of these pressures. We have all had to make some arrangements which restrict trade. It is a hard political fact of life.

-- As recovery strengthens, we must avoid and reverse protectionist actions. If we do not, our recovery itself will be impeded and we will all suffer. Trade contributes to a strong recovery; it cannot simply wait for recovery.

-- It is also vital for LDC debtor nations to have access to our markets if they are to manage their debt.

-- In the United States, we may run a $70B trade deficit, and we will have a Presidential election in 1984. Yet we will not give in to partisan politics and protectionist pressures.

-- Our agreements or arrangements on steel, or on automobiles, or on agricultural products, must be seen as short-term measures which we should aim to remove as soon as possible.

-- We must do more with GATT, making it adapt to the emerging issues of the 80's such as trade in high technology products and services.

-- Our goal in this decade must be further trade liberalization, supported by a sound international financial system.

-- This afternoon, I suggest we discuss in more detail how to implement the agreement I know we share to reverse protectionism and dismantle trade barriers.

Objectives for this Topic

-- To reach agreement on a balanced approach to supporting the international financial system.

President's Talking Points

-- Our five-part strategy includes (1) economic adjustment by debtor countries, (2) a strengthened IMF role, (3) commercial bank roll-overs and new money, (4) government assistance and bridging efforts, and (5) global economic recovery.

-- U.S. has taken lead in attempting to solve problems of the major Latin American debt problems, Mexico and Brazil; others of you have shared this burden and taken the lead in other countries.

-- International financial assistance to the developing world is one of the most important forms of economic assistance, and it helps us by providing expanding markets for our goods.

-- It is critical that the Summit and other industrialized countries keep our markets open to the LDCs so they can sell goods and service their debts (relationship between trade and finance).

-- It is also necessary to have close consultation among our trade and finance officials.

Objectives for this Topic

-- To reach agreement that East-West trade policies should reflect Western security interests.

-- To endorse the results achieved in recent months in COCOM (technology transfer), the IEA (energy security), the OECD (subsidized credits).

-- To reach agreement that this work should be continued.

President's Talking Points

-- For the last two summits -- Ottawa and Versailles -- I have consistently emphasized the importance of looking at our economic relations with the East in a security framework.

-- I am glad to see that since Versailles we have undertaken the serious analytical work necessary to work out sensible policies in this area.

-- We do not believe in economic warfare, but we do believe that our economic relations with the East should not make our defense tasks more difficult, or lead to uneconomic transactions with the East.

-- We believe that the results of the IEA study on energy security, the results of the COCOM high-level meeting, the OECD studies on trade and finance and the study done by the Economic Committee of NATO provide the elements of the framework we seek.

-- We should endorse the results already achieved in these other bodies, take action on them in our national policies and continue the work into the future.

_____ Williamsburg not just economic discussion, but a meeting of nations with shared values of individual freedom and democracy which give prosperity its meaning.

Notes:

_____ Recovery is underway in the West, real improvement in last year.

[ ] Reduced inflation and interest rates, increased productivity

[ ] Reduced oil dependence has helped bring price decline

[ ] Recovery in the Summit countries will spread, reviving trade and easing debt problems of LDCs

Notes:

_____ Problems remain to be tackled

[ ] Unemployment, particularly among the young

[ ] Differences in inflation rates among countries

[ ] High interest rates due to inflationary expectations, high current and future budget deficits

[ ] Protectionist pressures threaten recovery by choking off trade

[ ] Conditions in developing countries still acute, including international debt burdens

Notes:

_____ Interrelationship that link our economies

[ ] Link between domestic individual growth and open trading system

[ ] Link between covergence of domestic policies and non-inflationary sustainable growth

[ ] Link between open markets and availability of financing

[ ] Link between economic cooperation and world progress

Notes:

_____ Sustaining the recovery requires balanced, steady action over long term across all these interrelationships

[ ] Promoting conditions for growth in each country

[ ] Maintaining fight against inflation

[ ] Reversing protectionism; liberalizing trade

[ ] Supporting world financial system

Notes:

SUNDAY AFTERNOON PLENARY SESSION

Specific Actions for World Economic Recovery

Objectives:

-- To identify action items on which there is agreement and which can be included in instructions to sherpas for drafting joint statement.

-- To focus on action items where differences prevail and, if they are not ripe for agreement, to identify post-Summit procedures for narrowing these differences.

-- To gain agreement on Financial Ministers' annex to Joint Statement on improving economic convergence

Tabs:

A. Techniques

B. Opening Remarks

C. Talking Points

D. Objectives Checklist

E. Instructions to Personal Representatives

Sunday Afternoon Plenary Session

Topic: Actions Now and in Longer-Term to Sustain World Economic Recovery

Time Allotted: 1:45-4:45 p.m.

Techniques:

-- Allen Wallis will be taking notes of the discussion, so you need not keep them yourself, as you did in the morning session.

-- On most topics you will wish to call on Secretary Regan or Secretary Shultz to give a detailed presentation after you introduce the topic.

-- Your role will be to keep the discussion moving, break deadlocks in the discussion, nail down consensus where it exists, and identify post-Summit procedures to narrow differences where they still exist.

-- Open the discussion by briefly summarizing conclusions of morning heads-only session then begin discussion of "Immediate Actions."

-- Call on Regan for detailed presentation of first topic (domestic policy/multilateral surveillance/intervention.)

-- Seek to involve heads to nail down items on which agreement is close at hand.

-- Let Ministers carry the discussion where differences prevail, turning to heads to decide what post-Summit procedures might be desirable to let Ministers discuss these differences further.

-- When "Immediate Actions" discussion complete, turn discussion to "Longer-term Policy Goals."

-- Identify issues to be discussed further at Monday morning plenary.

-- Ask Shultz to summarize the discussion at the end and to establish common guidance for how the discussion will be represented to the press.

Sunday, May 29 - 1:45-4:45 p.m. - Plenary

President's Opening Remarks

-- This morning we agreed that great economic progress has been made in the past year, but that tough challenges remain ahead of us.

-- We agreed that in each of our countries we must nurture the recovery that is beginning, and stay on course for a sustained, inflation-free recovery to provide prosperity and, above all, jobs.

-- We agreed that we must resist protectionist pressures to keep the world market open for trade.

-- We agreed that we must support the world financial system.

-- We discussed in general terms the important interrelationships in the international economic system, and that a balanced, steady, broad-gauge program is necessary to restore stable growth.

-- This afternoon, with the help of our ministers, we will discuss in more detail some of the specific items which can be called the "Williamsburg program for economic growth."

-- The preparatory process has given us hope that we will find many areas of agreement.

-- Where disagreements remain after our discussions this afternoon, it is important to identify a process that will continue after this summit so that we can continue to narrow differences, and understand each other's points of view.

-- We should first discuss those actions which we should all take or continue to follow in the near term.

Sunday, May 29 - 1:45-4:45 p.m. - Plenary

IMMEDIATE ACTIONS FOR A SUSTAINED RECOVERY

Domestic Policy/Multilateral Surveillance/Intervention (Call on Secretary Regan for details)

-- One of the more difficult problems we face is the convergence of domestic policies, which fundamentally determines our exchange rates.

-- At Versailles we began a multilateral surveillance process to bring these fundamental policies into line.

-- We should enhance the consultations on exchange market conditions and economic policies, and be willing to intervene in a coordinated manner when we agree it would be helpful.

-- We must all work on reducing our budget deficits, especially by controlling expenditures, to lower inflationary expectations and high interest rates.

-- We should also pursue non-inflationary growth of monetary aggregates to achieve and maintain low inflation and interest rates.

-- We should publish the statement the Finance Ministers have worked out to emphasize futher work in this area.

Trade (Call on Secretary Shultz for details)

-- One of the most important immediate actions is to resist protectionism.

-- We should take advantage of recovery to relax and dismantle trade barriers and trade-distorting domestic measures, including those related to trade in high technology.

-- We should attack current problems in agricultural trade, extraterritoriality and achieve a safeguard agreement by October, 1983, as mandated by the GATT ministerial.

-- We should begin work now in GATT for further trade liberalization focusing on trade with the LDCs, to enhance their ability to export, which is the key to their economic developmment and servicing their debt.

International Finance (Call on Secretary Regan for details)

-- Another important challenge is to support the international financial system.

-- We need to secure early ratification of increases in IMF and GAB resources, and provide necessary interim financing.

-- We should reaffirm our commitments to the IDA and other multilateral development banks.

-- We should continue our current strategy for dealing with current debt problems, including effective adjustment in debtor nations, adequate private and official financing, and sustained, non-inflationary recovery in industrial countries.

East-West Trade (You may wish to call on Secretary Shultz for details)

-- It is important that our overall security interests set the context for our trade with the East.

-- I am pleased that the serious work done in the other multilateral bodies - the OECD, the IEA, NATO and COCOM - has resulted in a much clearer approach to East-West trade and solid achievements in protecting our security interests.

-- We must continue the work in these bodies on a priority basis.

Other Issues: Dialogue with LDC's and UNCTAD VI (in response to statements of others)

-- I agree that we should welcome the openness to dialogue expressed by the LDC's at New Delhi and Buenos Aires conferences.

-- However, the substance of their proposals, and some of the rhetoric, remains in many respects excessive and unrealistic.

-- At UNCTAD VI, I believe we should be constructive. But our message to that meeting should recovery, which will ensure the revival of commodity markets, and practical measures to manage debt problems, and on our own program for promoting trade and encouraging both private investment and official assistance.

LONGER-TERM POLICY GOALS AND DECISIONS

Domestic Policy/Multilateral Surveillance/Intervention
(Secretary Regan)

-- We must commit ourselves to sustain the fight against inflation and structural deficits to encourage a higher level of investment and new job creation.

-- We must pursue the consultative arrangement agreed at Versailles to promote economic convergence toward low inflation and sustained growth to achieve greater exchange rate stability.

-- We should continue our agreement on exchange market intervention, in the context of an open trading, investment and financial system.

Monetary System and Conference
(If sense of morning meeting is to omit a possible monetary conference from the public statement)

-- I propose we ask our officials responsible for trade and financial policies to meet as often as necessary over the coming year, in consultation with the Directors of the IMF, OECD and GATT, to develop a consistent long-term strategy which would integrate our arrangements for closer consultation on domestic economic policies, including economic convergence and exchange rate stability; future moves toward trade liberalization; and our strategies for providing adequate flows of public and private finance and investment in LDC's.

(If sense of morning meeting is to include reference to a possible monetary conference in the public statement.)

-- I propose that, given our differences, we agree to note the fact that this proposal was discussed but no agreement was reached. We expect the area of difference to narrow in the convergence work.

Trade (If sense of morning meeting is not to call for a GATT Ministerial in 2-3 years to launch new trade negotations)

-- I regret that we were unable to reach agreement on signalling our intention now to proceed with new trade negotiations later on.

-- I propose that the question of future trade negotiations be factored into the discussion of long-term strategy which we would ask our trade and finance officials to conduct.

-- In addition, we should invite trade officials, in consultation with the GATT and other countries, to define the conditions for improving the open, multilateral trading system, including especially trade with developing countries, and to consider how best to give real urgency to this process.

<u>Development</u> (Secretary Regan)

-- Our long-term strategy must encompass a sound approach to the development process.

-- I propose we ask our Finance and Development Ministers to examine ways to improve the effectiveness of both trade and finance in the process of development and structural adjustment.

-- (If raised by others): I have requested the full funding for IDA VI through Congress. While seeking this funding I cannot make a commitment now about the size of IDA VII. Once IDA VI is fully approved, we can negotiate seriously about the seventh replenishment.

-- (If raised by others): We remain opposed to using SDR's for aid purposes. SDR allocations should be made as a function of our judgments about the need for additional liquidity, not for development finance.

<u>Technology, Structural Development and Other Topics</u>

(Endorse other issues as they appear in Themes Paper)

-- <u>Technology</u>: We should promote technological development and trade, including their public acceptance; in particular we should implement the specific projects in the program for cooperation initiated at Versailles.

-- <u>The economy of the future</u>: We should promote structural adjustment and its public acceptance, in order to enhance competition and the flexibility of markets, and to improve the allocation of resources, by all appropriate means including revitalization of training and the encouragement of mobility.

-- <u>Energy</u>: Continue efforts to conserve energy and develop economic alternative energy resources so as to ensure Western energy security and enhance energy production in developing countries.

-- (If raised by others): We cannot agree to an international agreement to stabilize oil prices. The level of oil prices should be determined by the market.

-- Food: Find practical ways to promote increasing food production in developing countries.

-- The Environment: Work together to find ways, without discouraging growth and technological development, to protect and preserve natural resources and to reduce the threat of pollution from industrial processes (e.g., acid rain).

-- Human resources: Promote cooperation in the development of human resources, including education and training and the improvment of health. We will emphasize our youth exchange initiative begun at Versailles.

SUNDAY AFTERNOON PLENARY SESSION

OBJECTIVES CHECKLIST

Immediate Actions for a Sustained Recovery

_____ Strengthen Multilateral Surveillance of Domestic Policies

[ ] Nail down agreement on attaching financial ministers' annex on strengthening convergence to joint statement.

[ ] Enhance consultations on exchange markets, reaffirm readiness to intervene in coordinated manner when helpful.

[ ] Commitment to reduce budget deficits.

[ ] Commitment to non-inflationary growth of monetary aggregates.

Notes:

_____ Reducing protectionism in trade

[ ] Direct trade officials to implement commitment to relax and dismantle national trade barriers.

[ ] Commitment to begin work in GATT on further trade liberalization, especially with LDCs.

[ ] Commitment to attack current trade problems.

[ ] Commitment to achieve GATT safeguard agreement by October, 1983.

[ ] Commitment to strengthen GATT.

Notes:

_____ Supporting International Financial System

[ ] Early ratification of IMF and GAB increases.

[ ] Reaffirm commitments to IDA and other development banks.

[ ] Continue current five-part strategy for meeting immediate problems.

Notes:

_____ Continue work on East-West Trade

[ ] Place economic relations with East in security context.

[ ] Express satisfaction with results in COCOM, IEA, OECD and NATO.

[ ] Commitment to continued work.

Notes:

_____ Agreement on Other Issues

[ ] Openness to dialogue with developing world at UNCTAD VI.

[ ] Commitment to better coordination with international economic institutions.

Notes:

Longer-Term Policy Goals and Decisions

Domestic Policy/Multilateral Surveillance/Intervention

[ ] Continue fight against inflation and structural deficits.

[ ] Strengthening consultative arrangements to promote convergence of domestic policies.

[ ] Continue agreement on coordinated exchange market intervention when appropriate.

[ ] (Resolve issue of handling international monetary conference proposal)

Notes:

International Finance

Notes:

Trade

[ ] Signal intention to call GATT Ministerial to launch trade negotiations or

[ ] Ministers of trade to work together on trading system, and to meet more frequently.

Notes:

Other Topics:

- [ ] Promote development and cooperation in high technology, following up Versailles projects.
- [ ] Promote structural adjustment and market flexibility for growth and jobs.
- [ ] Find ways to increase food production in developing countries.
- [ ] Work together to preserve the environment.
- [ ] Promote cooperation in education, training and health improvement.

Notes:

Late Sunday Afternoon Session with Sherpas

Topic: Instructions to Sherpas for First Draft of Joint Statement.

Time Allotted: 5:00-5:15 p.m.

Objectives:

-- To issue firm and full instructions to sherpas.

-- To reflect a unity among the heads on such instructions so as to constrain the sherpas in the subsequent drafting process.

Techniques:

-- Present instructions agreed on among the heads at the end of the afternoon session.

-- Ask the sherpas if there are any questions.

Things to Watch Out For:

-- Ambiguity in the instructions.

-- Heads saying that joint statement should be left to sherpas.

SYSTEM II
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THE WHITE HOUSE

WASHINGTON

ACTION

April 7, 1983

C.F.

167757

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(ATTACHMENT) FO006-06

PR007-01

FG006-12

FG006-01

MEMORANDUM FOR THE PRESIDENT

FROM: WILLIAM P. CLARK

SUBJECT: Give-and-Take Session on Summit Issues
Friday, April 8, 1983 -- 2:00 p.m., Cabinet Room

Issue

This is the third of your give-and-take sessions on Summit issues. The first reviewed the economic policies and prospects of other Summit countries, the second dealt with the search for discipline and compatibility in the alignment of domestic economic policies of the major currency (Summit) countries, and the third now deals with exchange market intervention.

Discussion

The issue of exchange market intervention is closely related to the search for discipline and complementarity in the relationship of domestic economic policies among the principal currency countries. The Europeans, particularly the French and Italians, see the commitment to intervene to maintain a fixed exchange rate or a target zone for exchange rates as the means to force domestic policy changes and greater discipline. The experience of the European Monetary Community (EMS) suggests, however, that what often results is not domestic policy change, but exchange rate adjustments. The U.S. and to a lesser extent, Britain and Canada, believe that better alignment of domestic economic policies around the common objectives of low inflation and sustained growth is a prerequisite for maintaining fixed exchange rates. If the political and economic prospects of such alignment are not present, intervention simply delays exchange rate adjustments and avoids altogether domestic policy changes.

Treasury has prepared the background papers. At Tab A is a summary of the basic issues. At Tab B is a more detailed explanation of the issues, including a one-page description at the end of the European Monetary System. This is a lot of reading, but the issues are complex and will figure centrally in your discussions with other heads at Williamsburg.

Recommendation

OK	No	
____	____	That you read the papers at Tab A and B before our meeting at 2:00 p.m., April 8, 1983.

Attachments

Tab A - Talking Points on Exchange Rates and Intervention
Tab B - Background on Foreign Exchange Rates/Intervention

dlb 12/19/2019

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE(S)

CONFIDENTIAL
(ATTACHMENT)

cc: Ed Meese
Jim Baker
Mike Deaver
Mike McManus
Dick Darman
Craig Fuller
Dave Gergen
Ed Harper
Martin Feldstein
Judge Clark
Bud Mcfarlane
Charles Tyson
Henry Nau

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TAB A

Summary of Exchange Rates and Intervention

1. Exchange rate policy, like trade policy and East-West relations, has been an area of continuing tension and discussion between the United States and other Summit countries.

-- The U.S. shift to a minimal exchange market intervention policy in early 1981 brought protests from our allies.

2. At Versailles, we started two initiatives to help resolve tensions over this issue:

-- Multilateral surveillance process, aimed at getting greater exchange rate stability through policy convergence; and

-- Intervention study, the first really comprehensive look any of us have taken at how effective exchange market intervention by all of the Summit countries has really been during the decade of floating exchange rates.

3. Intervention study concludes basically:

-- that economic convergence is a precondition for greater exchange rate stability;

-- that while intervention can have a modest short-run impact on rates, other policy measures are necessary for more powerful and lasting impact; and

-- that "coordinated" intervention by two or more countries is more powerful than intervention by just one country (but even in this case underlying policies have to be moving in the right direction for it to work).

4. These conclusions are basically consistent with U.S. policy approach to date of intervening only very modestly and infrequently to counter market "disorder".

-- They reaffirm the validity of our basic reliance on markets to guide exchange rates, and on economic policy convergence as the key to getting greater exchange rate stability.

5. Despite broad acceptance of these points, varying views on intervention, and varying degrees of emphasis among our Summit partners:

-- French and Italians tend to advocate frequent, large-scale intervention with a view to substantial management of exchange rates. Basically they would like others to help them protect their chronically weak currencies -- a losing bet.

-- Germans and Japanese would like U.S. to intervene at times to support their goals (which are not always very clear, and which change), but do not support heavy exchange rate "management" through intervention.

-- Canadians and British do not think intervention itself is very important, and have been least vocal in urging U.S. intervention.

-- However, common thread is that some greater U.S. willingness to intervene would help settle market psychology, avoid extreme market reactions to economic or political developments.

6. On operational-type questions, although we cannot see enough benefit for ourselves in more active intervention to overcome its drawbacks, some others would like us to join in "coordinated" intervention.

-- Would be easiest on bilateral basis, as has been suggested by Japanese in past.

-- But can affect exchange rates of third countries. (For instance, if we support DM, could weaken French franc. Could create EMS tensions, and anger the French.)

-- Thus support, especially by Europeans, for "multilateral coordination." Major problems, substantive and logistical:

° Would have to involve formation of common view of fairly large number of countries on rate levels or movements.

° "Coordination" among 6 or 7 countries on an operational, day-to-day basis, would be a logistical impossibility.

° Could lead to regular and systematic intervention at potentially sizeable taxpayer cost.

7. In light of basic substance, wide range of other countries' views, and varying degrees to which they want more U.S. intervention, would propose the following U.S. approach on complex of intervention/macroeconomic policy issues:

-- First, major emphasis on macroeconomic consultations, surveillance, sound policy, as route to greater exchange rate stability. Push for progress in strengthening multilateral surveillance at Summit, as discussed you at the last give and take session.

-- Second, no major change in U.S. philosophy and approach on intervention.

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-- Third, however, indication of:

- greater U.S. understanding of others' exchange market concerns and policies;
- U.S. willingness to avoid divisive public comments on intervention (assuming others do likewise); and
- possibly greater U.S. preparedness to enter markets promptly, though on modest scale and infrequently, in instances of market disorder.

8. As practical matter, U.S. would not expect to intervene frequently, in size, or in currencies other than DM or yen. Specifics would be discussed bilaterally with Germany and Japan; and care would be needed to avoid being drawn in to regularized, large-scale intervention.

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TAB B

Background on Foreign Exchange Rates

and Intervention Policy

Exchange rate policy, like trade policy and East-West relations, has been an area of continuing tension and discussion between the United States and other Summit countries.

- The U.S. shift to a minimal exchange market intervention policy in early 1981 brought protests from our allies. We have gone a long way since then toward reaching common understandings and defusing tensions over this issue.

- Still differences remain, both on intervention in a narrow sense (where most others would like us to be more active), and on broader exchange rate issues, where some would like us to be willing to change our monetary and fiscal policies to influence exchange rates.

A. Current U.S. Intervention Policy and its Rationale

Prior to the Reagan Administration taking office in January 1981, the United States intervened frequently in the exchange markets. Authorities bought and sold foreign exchange in the market -- sometimes in very large amounts -- in an effort to change the trend in the dollar exchange rate; to counter perceived disorder in the market; or to build up foreign exchange reserves for future intervention. For example:

- From the beginning of 1978 to September, 1979, the Treasury and Federal Reserve made net sales of about \$8.5 billion worth of German marks in the exchange market in an effort to moderate the rise of the mark against the dollar. Yet by the end of September 1979, the mark exchange rate had risen to 1.74 per dollar from 2.11 per dollar at the end of 1977 -- a rise of 21 percent. The dollar only began a lasting recovery against mark after the Federal Reserve announced a package of monetary control measures in October 1979.

- Similarly, from October 1980 to the end of February 1981, the U.S. bought \$6.9 billion worth of German marks, in part to cushion the fall of the mark against the dollar and in part to build up U.S. foreign exchange reserves. Over this period the mark nonetheless fell by 15 percent against the dollar.

When this Administration took office, the Treasury initiated a review of exchange market policy. As a result of that review, it was concluded that potential gains from exchange market intervention were outweighed by the costs, and that the new intervention policy

Classified by T. Leddy.
Review for declassification on 4-4-89.

would be a minimalist one. The only goal of intervention would be to counter severely "disorderly" exchange markets. Since March of 1981, that policy has been followed.

Under the Bretton Woods system, maintaining fixed exchange rates constrained each country's freedom to have an independent monetary policy. Flexible rates have increased the possibility of independent policies, but only if governments are willing to accept the exchange rate consequences of differing policies. The choice of exchange rate regime is partly a political one, but in any regime stable exchange rates are fundamentally only a by-product of stable and convergent economic policies and performance.

Even though successive Summit communiques have stressed harmonization, over the last decade economic policies were too divergent, and the world economic environment too turbulent, to make stable exchange rates possible. We have been working actively with our Summit partners (particularly through the multilateral surveillance process agreed at Versailles) to get them to adopt sound economic policies necessary for sustainable non-inflationary growth -- and thereby to also set the stage for greater exchange market stability.

Exchange market intervention has not proved capable of resisting the exchange rate movements caused by differing economic policies. While intervention can impact on exchange rates, its effects are small and short-lived, since exchange markets are sophisticated and are far larger than the resources governments have available to manipulate them. It is possible for governments to alter exchange rate behavior in a significant and lasting way if they do not like current exchange rates -- but to do so they must make the necessary changes in their economic policies (including monetary policy) to eliminate major differences. Attempts to reconcile existing economic policies with a different exchange rate path through intervention alone do not work.

B. <u>State of Play on Versailles Initiatives</u>

At the last Economic Summit, in Versailles, we initiated two measures to help resolve the exchange rate policy debate:

- <u>Multilateral Surveillance</u>. Last year at Versailles, the Summit countries reaffirmed the understanding reached at the Rambouillet Summit in 1975, that better convergence in the underlying economic policies and performance in the major trading nations is necessary to achieve greater exchange market stability. All pledged to pursue policies designed to foster a convergence toward sustainable, non-inflationary growth, as the primary means of attaining more stable exchange rates. The multilateral surveillance process -- a series of frank consultations that takes place mainly among the G-5 countries and the IMF Managing Director -- was begun in the hope of hastening the convergence of economic conditions.

° Intervention Study. Even though all our Summit partners were willing to at least give lip-service to the notion that economic convergence was necessary for greater exchange rate stability, some felt that exchange market intervention could also be a powerful means of stabilizing exchange rates.

The United States proposed that an international study be undertaken in order to take stock of the experience with foreign exchange market intervention in the decade of floating exchange rates. This study was carried out by a working group of the Summit participants and has been submitted to Finance Deputies as background to their policy discussions.

On the basis of the intervention study and the Deputies' follow-up discussions, we believe there are a number of points of general agreement on intervention and exchange rate policy:

- Economic convergence is a precondition for greater exchange market stability. The Summit countries should redouble their efforts in this area.
- Intervention can have a modest, short-run impact on exchange rates. But other policy measures are necessary to have a more powerful and lasting impact.
- Intervention cannot achieve exchange rate objectives inconsistent with the implications of underlying economic policies and world economic conditions. Large swings in exchange rates cannot be prevented in the presence of diverging economic policies and performance conditions.

The results of the intervention study have made the position of those who would use intervention in an ambitious way -- to fix or manage exchange rate levels, or to hold exchange rate levels inconsistent with the basic thrust of economic policies -- difficult to sustain. They also suggest that intervention could not succeed in maintaining a fixed exchange rate system in the absence of the necessary convergence in economic policies and performance.

- The experience of the European Monetary System (EMS) provides further evidence. (A background note on the EMS is attached.) The French, in particular, have attempted to use EMS intervention to try to hold the franc steady against the German DM at a time when France's Socialist economic policies are causing weak French economic performance, while German performance is getting stronger.
- The French have strong political reasons to want to avoid a weak franc -- it is widely regarded in Europe as a sign of the failure of Socialist policies. But economic reality has led to continuing market pressures.

- The French franc has now been devalued three times in the EMS since Mitterrand took office: by 3% in October, 1981; by 5.75% in June, 1982; and by 2.5% in March, 1983. (On each occasion the DM was also revalued, so that the effective devaluation of the French franc against the DM was larger -- 8.5% in October, 1981; 10% in June, 1982; and 8% in March, 1983.) Each of these devaluations was preceded by massive intervention to support the French franc, and by prolonged unwillingness by the French to take other policy measures. The most recent EMS realignment also included bitter public recriminations between the French and Germans.

  On balance, between the time Mitterrand became a serious contender for public office in March 1981, and the most recent realignment, the French (and others supporting their efforts) made intervention purchases of nearly $28 billion equivalent to support the franc, to no avail overall.

- One can also view the recent history of the EMS as demonstrating what happens in an attempt to establish a fixed parity system before the economic conditions necessary for exchange rate stability have been established.

C. Remaining Areas of Controversy

All six of our Summit partners would like to see the United States intervene more often in exchange markets.

- Their exact positions vary importantly:

  French and Italians would like frequent, large-scale intervention with a view to substantial management of exchange rate movements. They want our help in trying to defend their chronically weak currencies.

  Germans and Japanese are not so ambitious, but would like us to intervene at times to support their goals (although their goals are neither clear nor constant).

  Canadians and British do not think intervention itself is terribly important, and have thus been least vocal in urging U.S. intervention.

- However, their common view is that some greater willingness by the U.S. to intervene would help to "settle" exchange market psychology, and possibly therefore to avoid some "extreme" market reactions to economic or political events.

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U.S. Response

- The results of the study do suggest that intervention could be used for some short-term purposes; but is not clear that any of these are economically important for the United States. Also, we are concerned that government intervention can inhibit private transactions necessary for efficient and stable exchange markets, and are reluctant to risk the taxpayer's money on a dubious undertaking.

Others are also interested in the possiblity of "coordinated" intervention.

- The intervention study found that "coordinated" intervention by two or more countries could be more powerful than intervention by a single country (due to the impact on market psychology of a show of common purpose and determination). However, it is difficult both to reach detailed agreement on such a course, and to carry out the agreement; and even this type of intervention does not succeed unless underlying policies are moving in the right direction.

- "Coordination" would be easiest to accomplish if it took place between only two countries -- as has been suggested by the Japanese. However, this would require a mutual judgment that macro policies are moving in the right direction on both sides, and an agreement on what intervention was meant to accomplish. In addition, intervention to influence one bilateral rate could have unwanted effects on "cross-rates" with other currencies, and thus put us in direct conflict with our other Summit partners. (For instance intervention to support the DM against the dollar could also weaken the French franc against the DM; such intervention could thus exacerbate EMS tensions and worsen our relations with France.)

- For this and other reasons, some Summit participants insist that any intervention by the United States be coordinated in an mutlilateral framework involving all of them (France and Italy are most insistent, and the Germans are sympathetic). The practical difficulties of "coordinating" with several countries on specific exchange market operations would be such as to make this approach non-operational.

U.S. Response

- In principle, it would be possible for us to engage in somewhat more frequent intervention in support of our major allies, on a limited basis for short periods in response to significant market unrest. However, any attempt to cooperate in this way would have to carefully restricted and monitored to keep it from slipping into prolonged, large-scale intervention.

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In addition, what would please some of our allies could put us in conflict with others, so that political gains from supporting one ally could be offset by political losses with others.

° All of our Summit partners (excluding the EC Commission, which has a heavily bureaucratic interest) agree that economic conditions are not presently such as to make a return to a system of fixed exchange rates or exchange rate "zones" a reasonable possibility for the foreseeable future.

° Some nevertheless feel a fixed-parity system would be a desirable goal to aim toward eventually (particularly the French and Italians). Few are dead-set against it in principle if the necessary conditions for stability emerge, but the Germans and British (at a minimum) would doubt that the necessary conditions are likely to be met.

There is more immediate interest in the possibility of trying to reach common views on exchange rate levels from time to time -- and in the event of agreement, to try to adjust economic policies accordingly. All six of our Summit partners find this idea attractive.

U.S. Reponse

In theory we could alter macro policies to pursue certain types of exchange rate goals -- for example, to weaken the dollar against all other currencies. In practice, we are constrained by at least four factors: (a) the practical difficulty of "fine-tuning" monetary and fiscal policy given the respective decision-making processes; (b) the undesirability of being perceived in markets as being willing to abandon our long-run policy course; (c) our lack of certainty about what U.S. policy changes might be necessary to affect dollar exchange rates and (d) our belief that many of the policy changes that have been suggested would have undesirable consequences.

In current circumstances, we are not as certain as many of our partners appear to be that the sole reason for a strong dollar is the fear that U.S. interest rates will be high in the future due to our budget deficits. Thus, we are not so sure that slashing the deficit would lead to a weaker dollar, although budget slashing would tend to have other desirable consequences; in addition, the means that most have suggested for doing this are large tax increases and major cuts in defense expenditures. It is likely that we could bring down the dollar eventually through a protracted spell of inflationary money growth -- but this would have undesirable longer-term consequences for both the U.S. and the rest of the world, through the resurgence of U.S. inflation and the resulting rebound in U.S. interest rates.

Strategy for Williamsburg

-- Seek reaffirmation of necessity for policy convergence as basic means of attaining greater exchange market stability; notion that intervention is not a panacea.

-- Stick to current overall philosophy and policy.

-- Different tone and nuances in implementing current U.S. policy. Convey cooperative attitude over exchange rate issues, and understanding of others' concerns. Perhaps consider standing ready to intervene slightly more often, on a very limited basis, to counter exchange market "disorder". Avoid open confrontations or disagreements with others on exchange rate issues, provided they are willing to do the same.

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Review for declassification
on 4-4-89.

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The European Monetary System

The European Monetary System (EMS), is an arrangement which maintains a fixed exchange rate and intervention system for participating countries (Germany, France, Belgium, Luxembourg, Denmark, Italy, the Netherlands, Ireland). The EMS has periodically experienced severe problems since its inception in March 1979, reflected in seven currency realignments -- the most recent being March 21, 1983. The frequency with which these realignments have taken place, and the increasing difficulty in arriving at agreements acceptable to all members, particularly France and Germany, have led EMS members and outside observers to question the merits of the system.

The predecessor of the EMS -- a fixed exchange arrangement known as the "snake", initiated in April 1972 -- was plagued by similar problems. Membership in the "snake" was initially more extensive than the EMS, (including the U.K., Sweden, Norway and Denmark in addition to the current EMS members) but exchange rate pressures caused by divergent economic policies prompted members to drop out of the system. The EMS was created as a symbol of Franco-German resolve to improve cooperation in the EC. It was designed as a somewhat tighter system than the "snake" in terms of policy convergence obligations, and included expanded lending facilities.

The objective that the EMS seeks to achieve by fixing exchange rates is to create stability in rates in order to facilitate trade. The EMS members also argue that fixed rates help to induce economic policy convergence, since it is often necessary to adjust policies in order successfully to defend the fixed rate.

EMS members have failed to obtain convergence of economic policies necessary to allow for exchange rate stability and thus, parity rates have held for only limited periods of time. In the most recent realignment, countries that pursued successful anti-inflationary policies -- notably Germany and Holland -- were forced to revalue, while France, Italy and Ireland -- relatively poor inflation performers -- devalued.

Under the EMS, countries must intervene if their currency exceeds prescribed limits against other members' currency. Prior to realignments -- as market forces act to change the rates -- massive intervention by EMS members is usually required to keep currencies within their limits. Intervention, used in this way, has only delayed inevitable adjustments in exchange rates and fundamental economic policies, and contributed to volatile speculative flows of capital which have disrupted the exchange markets. For example, France alone spent $7.4 billion of its reserves in support of the French franc from the beginning of 1983 until the latest realignment. Despite this, the French franc was effectively devalued by 8 percent against the German mark and the Government of France was forced to enact new economic austerity measures to calm the exchange markets.

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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.

/s/
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

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Sec.3.4(b), E.O. 12958, as amended
White House Guidelines, Sept. 11, 2006
BY NARA dr DATE 12/19/2019

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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.

<u>Prospects</u>

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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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.

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.

GIVE AND TAKE SESSION
ON SUMMIT ISSUES

East-West Economic Relations

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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April 28, 1983

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MEMORANDUM FOR THE WHITE HOUSE SUMMIT GROUP

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Sec.3.4(b), E.O. 12958, as amended
White House Guidelines, Sept. 11, 2006
BY NARA dh DATE 12/19/2019

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TAB A

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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.

TAB B

SYSTEM II
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GIVE AND TAKE SESSION ON SUMMIT ISSUES

East-West Economic Relations

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