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# WITHDRAWAL SHEET

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**Collection Name** MCMINN, DOUGLAS: FILES

**Withdrawer**

SMF 2/21/2008

**File Folder** FRANCE-ISSUES (2)

**FOIA**

S2007-081

**Box Number** 13

NOUZILLE

173

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
51004	OUTLINE	THEMES FOR XCSS MEETING <b>R 5/24/2010 NLRRM2007-081</b>	1	ND	B1
50985	PAPER	DOS BRIEFING PAPER RE OECD/XCSS MEETING <b>R 4/20/2010 M2007-081</b>	6	ND	B1
50988	PAPER	DOS BRIEFING PAPER RE POSITIVE ADJUSTMENT POLICIES <b>R 4/20/2010 M2007-081</b>	2	ND	B1
50990	CABLE	170352Z DEC 81 <b>R 4/20/2010 M2007-081</b>	3	12/17/1981	B1
50991	CABLE	231716Z DEC 81 <b>R 4/20/2010 M2007-081</b>	4	12/23/1981	B1
50992	PAPER	DOS BRIEFING PAPER RE NORTH/SOUTH ISSUES <b>R 4/20/2010 M2007-081</b>	3	1/13/1982	B1
50994	PAPER	DOS BRIEFING PAPER RE EXECUTIVE COMMITTEE SPECIAL SESSION <b>R 4/20/2010 M2007-081</b>	3	1/14/1982	B1
50997	PAPER	DOS BRIEFING PAPER RE EAST/WEST ISSUES <b>R 4/20/2010 M2007-081</b>	3	ND	B1

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

B-1 National security classified information [(b)(1) of the FOIA]

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# WITHDRAWAL SHEET

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SMF 2/21/2008

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173

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
50999	PAPER	DOS BRIEFING PAPER RE MACROECONOMIC OUTLOOK-OECD AREA <b>R 4/20/2010 M2007-081</b>	9	ND	B1
51000	PAPER	DOS BRIEFING PAPER RE ENERGY- IMPLICATIONS OF CURRENT SUPPLY/DEMAND OUTLOOK <b>R 4/20/2010 M2007-081</b>	2	ND	B1
51003	PAPER	DOS BRIEFING PAPER RE EXECUTIVE COMMITTEE IN SPECIAL SESSION <b>R 4/20/2010 M2007-081</b>	2	ND	B1

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DEPARTMENT OF STATE

Washington, D.C. 20520

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I. There are four main themes for this XCSS:

*made*  
(a) Trade

-- Stress U.S. priorities in the run-up to the OECD Ministerial, Versailles Summit and GATT ministerial.

2 — (b) East/West

-- Overcome resistance to OECD work in this general area.

-- Engage our OECD partners on the Polish situation and U.S. sanctions.

(c) Energy Security

*RA*  
-- Informally raise shared OECD interests, including future supply and demand of primary energy resources.

*CM* (d) North/South Dialogue

-- We face a damage limitation exercise, explaining the U.S. stand on Global Negotiations, post-Cancun.

II. Our main objectives are to:

(1) Use the XCSS as a forum to broaden the discussion on trade and other issues addressed at Key Biscayne. We want to report to our OECD partners on Key Biscayne and explain our interests in managing shared OECD trade problems. We also want to comment on the latest draft of the OECD trade study and provide guidance to the Secretariat on the future of the OECD's work on positive adjustment policies.

(2) (Restricted sessions) Share with our OECD partners the U.S. assessment of the Polish situation, to help maintain momentum from NATO Ministerial.

(3) (Corridors and restricted sessions) Lobby for Helga Steeg, our preferred candidate to succeed van Lennep.

III. Potential Problems

On East/West, there is considerable reluctance among neutral countries in OECD to sustain a work program on East-West economic problems. Van Lennep has expressed interest in revitalizing this work program and we should follow his lead at the XCSS.

The work on positive adjustment policies has received mixed support from the OECD members. It may be difficult to achieve a consensus on continuation of this work beyond next July.

IV. Other Considerations

Many of the key issues will be discussed in restricted sessions, i.e., other members of your delegation will not be admitted. There may be some bruised egos unless a role can be found for Messrs MacDonal and Waldmann.

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BY *CA* NARA DATE *5/27/12*  
NLR # *102-81-51004*

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draft

RH Intro

-- I am going to ask Ray Waldmann to address this agenda item, but first will you permit me to go somewhat far afield and make a few remarks on the wider issue of adjustment, particularly as it affects international flows of goods, services and capital.

-- Somewhat later in this meeting, we will discuss the Secretariat's Study of Trade in the 80s, a study commissioned by Ministers last year. We will also have an opportunity to hear about the Organization's work on International Investment, in particular the national incentives and disincentives which may influence investment flows.

-- These three items - Positive Adjustment, Trade Policy in the 80s and International Investment - are not unrelated. In fact, taken together they suggest a provocative theme which we may wish to develop for consideration at this Spring's Ministerial. We have long past the day when trade barriers, particularly tariffs, were primary sources of revenue for governments. Trade barriers are, in effect, a means to insulate a domestic activity from international competition. Put another way, trade barriers mask the adjustment process which would otherwise be required of domestic industries, or other activities.

EXECUTIVE COMMITTEE IN SPECIAL SESSION  
January 21-22, 1982SCOPE PAPERSETTING

The OECD/XCSS meeting, taking place against the backdrop of continuing recession and the recent military crackdown in Poland, provides a significant opportunity for communication and coordination between the U.S. and its OECD partners. Discussion at the XCSS will broaden the forum for trade and other issues addressed at Key Biscayne. It will provide a useful step in the key sequence of meetings to help manage shared OECD problems this year: the US-EC Ministerial in Washington next month, bilateral talks with Japan, the OECD Ministerial this spring, the Versailles Summit, and the GATT Ministerial.

The situation in Poland requires close coordination and consultation among the Western countries involved. We want to demonstrate to the Soviets and to the Jaruzelski regime linkage between the existing violation of the Helsinki accords and normal East-West economic interchange and development. The EC Foreign Ministers recently issued a strong condemnation of the military crackdown in Poland. NATO Ministers agreed on a common position and also decided to brief the non-NATO allies on their January 11 communique. The OECD/XCSS provides yet another forum (with a wider membership) to address this issue.

The OECD economy is still in recession, although the trough may have been reached and a modest recovery (two percent increase in non-US OECD growth) is foreseen for 1982. Some European leaders, notably Chancellor Schmidt, continue to worry about the effects of the current recession on the industrial democracies. Unemployment in Europe is expected to rise over the next eighteen months to about 10 percent of the labor force. This bleak situation, partly responsible for the deteriorating international trade environment, points up the need for closer consultation and cooperation in coming months if we are to avoid a new era of protectionism.

U.S. OBJECTIVES

There are four main themes for this XCSS:

(a) Trade -- this is an important opportunity to emphasize US priorities in the run-up to the Versailles Economic Summit and the GATT Ministerial, specifically:

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BY AK NARA DATE 1/20/10

- need to avoid protectionism;
- improvement of the export credit arrangement;
- definition of the trade agenda for the 1980's; and
- the need for positive adjustment

(b) East/West -- We want to overcome resistance to OECD work on East/West issues. And, we want to engage our OECD partners, especially non-members of NATO, on the situation in Poland. Specifically, we aim to:

- convey our assessment of Poland's current economic/political situation;
- discuss of recent US measures against Poland and the USSR;

(c) Energy Security -- The XCSS provides an opportunity to help shape the discussions for the IEA and OECD Ministerials.

(d) North/South Dialogue -- We face a damage limitation exercise which takes into account discussions in the January 12-13 OECD North/South group, including continuing concern about US stand on Global Negotiations, post-Cancun.

An elaboration of the above objectives, keyed to individual agenda items, follows:

Report on the Work on Positive Adjustment Policies (PAP)

As the present phase of the organization's work on PAP winds up, the Secretariat needs guidance on the disposition of the PAP group's report and the direction and institutional locus of the future work program within the organization. This item is expected to be controversial since several OECD countries, including France, would like to see this troublesome exercise to go away. We seek to:

- gain acceptance that the PAP work be absorbed by each part of the OECD according to its specialization; and, most importantly,
- plant the idea at the G-6 dinner that the PAP "political statement," to be made at the 1982 Ministerial, will both sound an alarm about the current threat to the maintenance of open international trade and investment



systems, and call for an expansion of international talks, possibly in the GATT, on these issues.

### The Trade Study

Following the recent Royaumont restricted meeting on the "trade study" mandated by the 1981 OECD Ministerial, delegates will be asked to comment on the Secretariat's latest draft.

Our objectives are to:

-- shape the study so that it is acceptable to us and our major trading partners, as a basis for a common approach to the GATT Ministerial; and

-- discuss informally with the Secretariat and key trading partners follow-up to the study, including practical work programs and possible organizational arrangements.

### North/South Dialogue

Discussions on the proposed Global Negotiations will resume in January in the U.N. OECD members will want to discuss the state of play on this issue, particularly in light of the January 12-13 OECD North/South Group meeting.

Our general objective in the OECD is to seek support for the priorities and five principles for positive action announced by President Reagan at the Cancun Summit. If time permits, we should point out the need to consider further substantive OECD work on issues relating to the importance of economic interdependence. Food and agriculture, trade, investment and economic assistance are functional issues we may want to stress in this year's OECD Ministerial. With respect to Global Negotiations, we should re-affirm U.S. willingness to engage in a new preparatory process on the basis of the four understandings expressed by the President at Cancun.

### Report on the Work of the Committee on International Investment and Multinational Enterprises (CIME) (restricted session)

We want XCSS endorsement of the expanded CIME and Trade Committee work program adopted as a result of our initiative at the October XCSS. At that time, we asked that the OECD accord ongoing work on investment incentives and disincentives higher priority. We should ask for a report on work accomplished at the next XCSS.

Distortions to Trade through Financing (restricted session)

Chairman Paye requested this item, possibly to deflect attention from the export credit arrangement. We have three main objectives:

-- reiterate our opposition to export financing practices which distort market forces;

-- stress the importance of further improvements in the Arrangement on Guidelines for Export Credits, aimed at reducing the subsidy element; and

-- prevent others (possibly the French) from turning attention away from the Arrangement or linking it with other trade questions.

East-West Economic Relations (restricted session)

The U.S. had first asked for this discussion, simply to update work done on our 1976 East-West initiative. However, the Polish situation has intervened and van Lennep hopes to have a substantive exchange of views on the political/economic aspects of that situation.

At the Bureau dinner (January 21) and Heads of Delegation lunch (January 22), we should:

-- discuss, for the benefit of non-NATO countries, U.S. measures with respect to Poland and the USSR;

-- report on action taken at the January 14 creditors meeting;

-- seek support for energizing OECD's work on the main issues in economic and trade relations with the centrally-planned economies (such as East European debt, subsidized credits East European role in GATT and other international economic organizations); and

-- discuss how the XCSS might handle East-West issues in the future.

Other business

Discuss possible agenda items for future XCSS meetings, including:

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- 5 -

- Update on OECD investment work;
- East-West economic issues; and
- Energy security.

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~~- 6 -~~

SCOPE PAPER

Drafted:EUR/RPE/OECD:CBillo  
1/15/82 X20326 (2652A)

Clearance:EUR/RPE:TERussell

Commerce:SBilinski

E:MCasse

S/P:Luft

EB:HKopp

EA/EP:WPiez

Treasury:SBrown

USTR:GFeketekuty

CONFIDENTIAL

10

DEPARTMENT OF STATE  
BRIEFING PAPER

ELECTION OF THE CHAIRMAN

U.S. OBJECTIVE

To support the re-election of Jean-Claude Paye as XCSS Chairman.

ESSENTIAL FACTORS

The OECD Secretariat has informed us that the election of the XCSS Chairman for 1982 is to be pro forma. The Secretariat knows of no candidates other than the present chairman, Jean-Claude Paye.

TALKING POINTS

-- THE U.S. SUPPORTS THE RE-ELECTION OF JEAN-CLAUDE PAYE AS XCSS CHAIRMAN.

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DEPARTMENT OF STATE  
BRIEFING PAPER

OECD EXECUTIVE COMMITTEE IN SPECIAL SESSION  
January 21-22, 1982

PLENARY AGENDA

1. Election of the Chairman
2. Adoption of the Agenda
3. Report on the Work on Positive Adjustment Policies
4. The Trade Study
5. North/South Dialogue
6. Other Business

Positive Adjustment Policies

U.S. OBJECTIVES

As a result of a decision by the 1979 OECD Ministerial, a Special Group of the Economic Policy Committee (EPC) on Positive Adjustment Policies (PAP) was formed to manage a two year investigation of structural adjustment issues. We seek to wind-up this work in a satisfactory fashion. To do this we need:

-- To affirm that the Special Group will go out of existence in June 1982, and that no other Special Group will replace it;

-- To gain acceptance that the PAP work be absorbed by each part of the OECD according to its specialization, with the Council empowering the XCSS to coordinate the efforts of the specialized committees in pursuing a work program on PAP and requiring a periodic review of PAP activities by the XCSS; and

-- To plant the idea, at the G-6 Dinner, that the PAP "political statement" to be made at the 1982 Ministerial will both sound an alarm about the current threat to the maintenance of a free and open trade and investment systems, and call for an expansion of international talks, possible in the GATT, on these issues.

ESSENTIAL FACTORS

The mandate of the PAP Special Group will expire in June 1982. This will mark the completion of the second phase of the PAP work. We favor allowing the mandate to expire at that time. So far, most delegations share our view.

There has been preliminary discussion within OECD on the possible locus for future work on this subject. The Special Group has performed some excellent analyses of the problems of implementing policies designed to promote efficiency in highly political sectors. However, efforts at getting this work released to the public have met with strenuous objections from other member states and, in certain instances, from ourselves.

Van Lennep and most delegations believe a PAP coordination and control role should be assigned to one committee, preferably the EPC. EPC Chairman, Murray Weidenbaum, does not want it in the EPC -- he thinks scarce Secretariat resources

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BY CU NARA DATE 4/20/10

could be better applied to other endeavors. While the Industry Committee might be a logical choice, that Committee is viewed as weak and ineffective. The Trade Committee already has a full menu of work, notably the Trade in the 1980's Study. All the other committees are too narrow in focus.

Given these problems, plus the original goal of PAP, which was to develop an analytical framework for future analyses conducted by all the OECD's committees, we do not favor continuing PAP work by any Special Group or charging any one committee with taking the lead on PAP issues. The Council should empower the XCSS to provide leadership, as needed. Each committee should use the lessons learned from PAP when investigating structural issues. The macroeconomic implications could be studied by the EPC's Working Party One.

The OECD Secretariat hopes to produce an "opus" on the PAP experience, entitled the Final PAP Report. Whether the Secretariat ever publishes such a document is not of critical concern to us. What is important is the substance of the "political statement" on positive adjustment that will be made by the 1982 OECD Ministerial. The U.S. is now drafting a proposed political statement which will:

-- Sound the alarm that structural adjustment issues have proven very difficult to deal with, and that failure to solve these problems will threaten the maintenance of our free and open trade and investment systems; and

-- Call for an expansion of international negotiations, not just among OECD countries, on all forms of trade and investment issues.

We have "volunteered" to do a first draft of this political statement so as to make it as forthcoming as possible. Some OECD members are trying to solve pressing domestic problems through various adjustment schemes that have an adverse effect on the international trade and investment systems. Our goal is not to lose the ground gained through the 1978 Ministerial's PAP political statement -- the Positive Adjustment General Orientations. We aim to avoid regression and, perhaps, even expand upon that base. We hope to circulate our draft political statement to G-6 capitals in late January.



TALKING POINTS

-- We would like to reconfirm what was agreed upon at the November 1981 PAP meeting: the Special Group's mandate will be allowed to expire in June 1982.

-- This does not mean that the organization's work on positive adjustment should end; rather, we favor charging all committees of the organization with incorporating a consideration of positive adjustment into their work programs.

-- Moreover, we ask that the Council empower the XCSS to coordinate the efforts of the various committees in pursuing an active PAP work program.

(For your use at G-6 Dinner only:)

-- We are concerned about the rise of structural assistance schemes designed to aid ailing domestic industries, but which, in turn, can seriously distort trade and investment patterns.

-- We realize the difficulty we have had in dealing with politically sensitive issues such as textiles, telecommunications, and government support for promising industrial activities, in PAP discussions.

-- We think the PAP political statement that will be made at the 1982 Ministerial is an excellent opportunity to sound an alarm about the growth of these and other sophisticated economic distortions. The political statement should also recommend ways to deal with these problems.

-- We will prepare a first draft of the PAP political statement in order to stimulate discussion. In late January we hope to circulate it to you for your comments and suggestions.

POSITIVE ADJUSTMENT POLICIES

DRAFTED: EUR/RPE/OECD:M Gallagher  
1/8/82 (2667A) X21697

CLEARED: CEA:JBurnham  
Commerce:SBilinski  
Treasury:SBrown  
E:MCasse  
EUR/RPE:SVogelgesang  
EUR/RPE/OECD:CBillo

DEPARTMENT OF STATE  
BRIEFING PAPER

Report on the OECD Trade Study

US OBJECTIVES

To shape the Trade Study in a way that will make it acceptable to us, and to our major OECD trading partners, as a basis for a common approach to the GATT Ministerial.

ESSENTIAL FACTORS

Secretary General Van Lennep's draft study, "Issues to be Addressed in the Trade Field in the 1980's", was discussed in a restricted meeting at Royaumont in December, and will be distributed at this XCSS meeting for review by delegations and by the OECD Committees. The final study will be submitted to the OECD Ministerial meeting in May.

US representatives (Under Secretary Rashish, Ambassador MacDonald) offered comments on the paper at Royaumont, drawing on the scope paper attached at Tab A.

In presenting the draft to the XCSS, the Secretary General is expected to invite general comments, and subsequently to focus discussion on the following topics:

- The inter-relation between trade and adjustment ~~problems and macro-economic policies affecting~~ inflation, unemployment, interest rates, real wages and productivity (paragraphs 28-43 and 52 of the Study).
- The view that the dividing line between trade policies and many domestically-oriented micro- economic policies have become increasingly blurred, and the question as to whether more systematic attention needs to be paid to potential distorting effects on trade of such policies. (paragraph 46-58 of the Study). ✓
- Trade in relations with the developing countries, including ways of encouraging their development through trade policies and of convincing them of the benefits of the market system as well as ways of bringing them into the system (paragraphs 74-76 of the Study).

- The Royaumont meeting did not come to definite conclusions on any of these issues. A summary of the Royaumont discussions, prepared by our OECD Mission and based on conversations with the OECD Secretariat, is attached at Tab B.

TALKING POINTS

-- We welcome the Secretary General's draft. The Secretary General's draft of the Trade in the 80's Study focuses attention on major trade issues, and will serve as a source of ideas to be drawn on in preparing for the GATT Ministerial. We encourage members to take an active part in committee work on the paper.

If there is a substantive discussion of the draft, the Delegation can make the following points:

-- While we support the idea of increased coordination between trade and general economic policies, the discussion of the inter-relationship of these policies is unsatisfactory. The links that the paper suggests exist between the international monetary environment and trade developments are not necessarily causal or injurious.

-- Trade relations with developing countries should be given additional emphasis in the Study. It could identify some specific areas in which common interests of developing and developed countries provide a basis for negotiations. For example, the paper might discuss prospects for achieving a reduction in LDC trade and ~~investment barriers in exchange for improved access to~~ DC markets.

Report on the OECD Trade Study

Drafted: EB/OT/TA: RJohnson: tem  
1/15/82 Ext. 21718

Cleared: EB/OT/TDC: WEdgar  
USTR: NAdams  
RPE: CBello

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	NSAE-00	COME-00	SCD-00	L-03	LAB-04	TRSE-00	OPIC-07
	CEA-01	OMB-01	SIL-01	INRE-00	FRB-03	AGR-01	ICAE-00
	SP-02	/115 R					

E. U.S. OBJECTIVES

DRAFTED BY USTR: W ADAMS:EMW  
APPROVED BY USTR: R SELF  
EUR/RPE: C BILLO  
USTR: F MONTGOMERY

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E.O. 12065 N/A

TAGS: ETRD, OECD

SUBJECT: USG SCOPE PAPER ON SECRETARY GENERAL VAN LENNEP'S  
DRAFT NOTE ON TRADE ISSUES FOR THE 1980S

1. TRADE POLICY STAFF COMMITTEE APPROVED THE FOLLOWING  
GUIDANCE (TPSC 81-178 REV. 1) FOR DISCUSSION AT ABBAYE DE  
ROYAUMONT, DECEMBER 18-20. ADDITIONAL BRIEFING MATERIALS  
WILL BE HAND CARRIED BY AMBASSADOR MACDONALD.

2. BEGIN TEXT: TITLE: SCOPE PAPER QUOTE ISSUES TO BE  
ADDRESSED IN THE TRADE FIELD IN THE 1980'S END QUOTE.  
A. IN RESPONSE TO THE OECD COUNCIL OF MINISTERS' REQUEST  
TO DEVELOP A PROGRAM OF STUDY WITHIN THE ORGANIZATION ON  
TRADE IN THE 1980'S, SECRETARY GENERAL VAN LENNEP HAS PRE-  
PARED A DRAFT NOTE SETTING OUT THE MAIN FEATURES OF THE  
ECONOMIC, STRUCTURAL AND INSTITUTIONAL SETTING IN WHICH THE  
TRADING SYSTEM WILL BE OPERATING IN THE 1980'S.

B. THE PURPOSE OF THIS EXERCISE IS TO IDENTIFY THE MOST  
IMPORTANT FUTURE TRADE AND TRADE-RELATED ISSUES FOR A RE-  
PORT TO OECD MINISTERS BY MAY 1982. IT IS EXPECTED THAT ON  
SOME OF THESE ISSUES WORK WILL CONTINUE IN ANTICIPATION OF  
THE GATT MINISTERIAL; OTHERS WILL REMAIN ON THE OECD AGENDA  
FOR YEARS TO COME.

C. VAN LENNEP HAS PRODUCED A DRAFT NOTE: QUOTE ISSUES TO  
BE ADDRESSED IN THE TRADE FIELD IN THE 1980'S END QUOTE  
FOR DISCUSSION AT THE RESTRICTED OECD MEETING TO BE HELD  
AT ABBAYE DE ROYAUMONT, DECEMBER 18-20. SPECIFIC U.S.  
COMMENTS ON THIS DRAFT ARE ATTACHED IN AN ANNEX TO THIS  
PAPER.

D. THE PURPOSE OF THE ROYAUMONT MEETING IS TO OBTAIN FIRST  
REACTIONS TO THE SECRETARIAT'S DRAFT NOTE, SPECIFICALLY:

- (1) GUIDANCE ON WHETHER THE RANGE OF ISSUES AND QUESTIONS  
COVERS ADEQUATELY THE MAJOR PROBLEMS THAT CAN BE FORESEEN  
FOR THE 1980'S; AND
- (2) SUBSTANTIVE DISCUSSION OF SOME OF THE MORE IMPORTANT  
ISSUES.

THE U.S. OBJECTIVE AT THE ROYAUMONT MEETING SHOULD BE TO  
BEGIN TO SHAPE THE MENU OF SUBJECTS ALONG LINES OF INTER-  
EST TO THE U.S. THE GOAL HERE IS TO DEFEND U.S. INTERESTS  
WHILE LISTENING TO THE OBJECTIVES AND PRIORITIES OF OTHERS  
WITH A VIEW TO BUILDING A COMMON UNDERSTANDING OF THE  
ISSUES. IN OTHER WORDS, THE ROYAUMONT MEETING IS NOT  
LIKELY TO LEAD TO A GROUP B CONSENSUS ON SOLUTIONS TO OUR  
TRADE PROBLEMS, BUT MAY AT LEAST FORCE A COMMON UNDER-  
STANDING OF WHAT THE RIGHT QUESTIONS ARE. THUS, THE  
SECRETARIAT'S DRAFT NOTE IS NOT INTENDED TO PROVIDE UNI-  
FIED ANSWERS, BUT TO STIMULATE THOUGHT AND DISCUSSION BY  
OECD MEMBERS. THE U.S. WOULD LIKE TO HIGHLIGHT OUR PRIOR-  
ITY INTEREST IN INVESTMENT, AGRICULTURE AND TRADE IN  
SERVICES. (SEE FURTHER DISCUSSION IN ANNEX, PP. 10, 11,  
12 RESPECTIVELY.)

VAN LENNEP HAS SUGGESTED THAT THE ROYAUMONT MEETING BE  
DIVIDED INTO THREE SESSIONS, THE FIRST DEALING WITH QUOTE  
TRADE, GENERAL ECONOMIC POLICIES AND STRUCTURAL CHANGE END  
QUOTE, THE SECOND WITH QUOTE-NEW AND OLD QUESTIONS FOR  
TRADE POLICIES END QUOTE, AND THE THIRD WITH QUOTE THE  
PROCESS OF INTERNATIONAL COOPERATION ON TRADE ISSUES  
END QUOTE.

A. TRADE, GENERAL ECONOMIC POLICIES AND STRUCTURAL  
CHANGE

IN THE FIRST SESSION, THE U.S. DELEGATION MAY WISH TO  
EXPLORE APPROACHES TO NORTH-SOUTH TRADE ISSUES. FOR EX-  
AMPLE, PARTICIPANTS COULD DISCUSS POSSIBLE TRADE-OFFS  
BETWEEN THE ACCEPTANCE OF OBLIGATIONS (BINDING OF RATES,  
ELIMINATION OF ARBITRARY LICENSING) BY ADVANCED LDCS AND  
REDUCTION OF DISCRIMINATION AGAINST THEM (E.G., SELECTIVE  
SAFEGUARDS) BY DEVELOPED COUNTRIES. THE FIRST SESSION IS  
ALSO EXPECTED TO INCLUDE A DISCUSSION OF THE POSSIBILITIES  
OF CLOSER INTERNATIONAL COORDINATION OF DOMESTIC ECONOMIC  
POLICIES, ESPECIALLY POLICIES HAVING A SIGNIFICANT IMPACT  
ON EXCHANGE RATES. WE AGREE THAT DOMESTIC POLICYMAKERS  
SHOULD TAKE INTO ACCOUNT THE INTERNATIONAL IMPLICATIONS OF  
THEIR ACTIONS, BUT DOUBT THAT THE DEGREE OF COORDINATION  
THE OECD STUDY SUGGESTS IS FEASIBLE.

U.S. PARTICIPANTS MAY WISH TO STATE OUR SUPPORT FOR POSI-  
TIVE ADJUSTMENT POLICIES. THIS WORK IS NOTED IN PARAS.  
34-36 OF THE SECRETARIAT DRAFT NOTE. AS THE SECRETARIAT  
POINTS OUT, DOMESTIC MEASURES ARE OFTEN COMPLEMENTED BY --  
OR A SUBSTITUTE FOR -- TRADE MEASURES. THE DIVIDING LINE  
BETWEEN TRADE POLICIES AND MOST OTHER ECONOMIC POLICIES  
HAS BECOME INCREASINGLY BLURRED. THE CONSEQUENCE HAS BEEN  
A LOSS OF TRANSPARENCY. THE U.S. WOULD LIKE TO SEE THE  
WORK OF THE OECD'S POSITIVE ADJUSTMENT GROUP PUBLISHED AND  
WANTS THE OECD TO CONTINUE THIS ACTIVITY FOLLOWING THE  
EXPIRATION OF THE GROUP'S MANDATE IN JULY 1982. WE WOULD  
WELCOME DISCUSSION OF THIS MATTER AT THE ROYAUMONT MEET-  
ING.

B. NEW AND OLD QUESTIONS

THIS ECLECTIC SESSION, WHICH COVERS SECTIONS IV-VI OF THE  
DRAFT NOTE, IS DESCRIBED BY VAN LENNEP AS RELATING TO  
PRACTICES, COUNTRIES AND ACTIVITIES THAT MAY NOT BE  
ADEQUATELY COVERED BY EXISTING TRADE RULES. SPECIFIC  
COMMENTS ON THESE SECTIONS ARE PROVIDED IN THE ANNEX TO  
THIS PAPER AND IN THE BRIEFING BOOKS FOR THE MEETING.  
SUBJECTS WHICH DESERVE SPECIAL MENTION ARE INVESTMENT PER-  
FORMANCE REQUIREMENTS, AGRICULTURE AND THE INTERNATIONAL

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## TRADING SYSTEM.

## C. THE PROCESS OF INTERNATIONAL COOPERATION ON TRADE ISSUES

THE THIRD SESSION WILL BE USED TO DRAW CONCLUSIONS FROM THE EARLIER DISCUSSIONS AND TO SUGGEST DIRECTIONS FOR FUTURE WORK. THE RELEVANT SECTION OF THE OECO DRAFT NOTE (SECTION VII) CONTAINS ONE SUGGESTION THAT IS PARTICULARLY TROUBLESOME. IN PARA. 101, THE NOTE SUGGESTS CONSIDERATION BE GIVEN TO ALLOWING QUOTE REPRESENTATIVES OF CONSUMER

GROUPS, OFFICIALS IN CHARGE OF NATIONAL COMPETITION POLICY, OFFICIALS OF INTERNATIONAL ORGANIZATIONS END QUOTE TO INITIATE ACTION UNDER THE CONSULTATION OR DISPUTE SETTLEMENT PROVISIONS OF INTERNATIONAL TRADE AGREEMENTS. WE BELIEVE THERE ARE SOUND REASONS FOR VESTING THE RESPONSIBILITY FOR RESORTING TO SUCH PROCEDURES IN GOVERNMENTS. HOWEVER, WE RECOGNIZE THE DESIRABILITY OF GENERALLY FINDING WAYS TO INCREASE CONSUMER INPUT IN TRADE MATTERS END TEXT.

## 3. BEGIN TEXT OF ANNEX: TITLE: ANALYSIS OF QUOTE ISSUES TO BE ADDRESSED IN THE TRADE FIELD IN THE 1980'S END QUOTE.

## A. INTRODUCTION

B. AT THE JUNE 1981 OECO MINISTERIAL, SECRETARY GENERAL VAN LENNEP WAS INVITED TO DEVELOP A PROGRAM OF STUDY ON MAJOR TRADE ISSUES TO BE ADDRESSED IN THE 1980'S. THIS INITIATIVE WAS DESIGNED TO IDENTIFY THE MOST IMPORTANT TRADE AND TRADE-RELATED ISSUES FOR A REPORT TO OECO MINISTERS BY MAY 1982. THE SECRETARIAT HAS PREPARED A DRAFT NOTE IDENTIFYING SOME OF THESE ISSUES. THE ROYALMONT MEETING PROVIDES AN INITIAL FORUM FOR INFORMAL DISCUSSION PRIOR TO THE NOTE'S FORMAL DISTRIBUTION TO THE COUNCIL AND OTHER SPECIALIZED OECO COMMITTEES.

## C. MAJOR THEMES IN THE PAPER

D. WHILE THERE IS NO CENTRAL FOCUS IN THE PAPER, IT DOES HIGHLIGHT CHANGES IN THE INTERNATIONAL TRADING SYSTEM AND THE NEED TO DEVELOP EFFECTIVE RESPONSES TO THOSE CHANGES. THE MOST SIGNIFICANT CHANGES WHICH ARE ADDRESSED INCLUDE: THE INCREASING INTERDEPENDENCE OF MACROECONOMIC AND TRADE POLICIES; THE CHANGING NATURE OF BUSINESS ACTIVITIES WITH THE GROWTH OF MULTINATIONAL ENTERPRISES; THE INCREASED VOLUME OF TRADE WITH THIRD COUNTRIES AND THE INCREASED NUMBER OF ACTORS IN THE TRADING SYSTEM (PARTICULARLY THE NEWLY INDUSTRIALIZED COUNTRIES AND SEVERAL NON-MARKET ECONOMY COUNTRIES); THE INCREASED VOLUME OF TRADE IN SERVICES AND THE NEED TO BRING SERVICES, AGRICULTURE AND COMMODITY TRADE MORE FULLY UNDER THE DISCIPLINE OF THE GATT; AND, FINALLY, INCREASING CIRCUMVENTION OF THE MULTILATERAL PROCESS THROUGH BILATERALISM AND COUNTERTRADE ARRANGEMENTS.

E. WITHIN THE CONTEXT OF THESE CHANGING PATTERNS IN TRADE, THE PAPER OUTLINES A NUMBER OF KEY THEMES:

(1) NEED FOR A CLOSER LINK BETWEEN MICRO- AND MACROECONOMIC POLICIES - THROUGHOUT THE TEXT THERE IS A RECURRING SUGGESTION THAT TRADE AND INDUSTRIAL POLICIES CAN NO LONGER BE DEVELOPED IN ISOLATION FROM MONETARY AND EXCHANGE-RATE POLICIES. THE PAPER CONTENDS THAT ATTEMPTS TO ADDRESS THE TWIN PROBLEMS OF HIGH INFLATION AND RISING UNEMPLOYMENT WILL BE THE MOST IMPORTANT SINGLE FACTOR IN THE EVOLUTION OF THE WORLD TRADING SYSTEM IN THE 1980'S. IT ALSO NOTES

THAT CHANGES IN THE INTERNATIONAL MONETARY SYSTEM (INCLUDING GROWTH OF THE SYSTEM AS A WHOLE AND GROWTH OF INTERNATIONAL INDEBTEDNESS) AND THE MOVE TO MORE FLEXIBLE EXCHANGE RATES ALL HAVE SIGNIFICANT EFFECTS ON TRADE. BEYOND COORDINATION OF TRADE AND MONETARY POLICIES AT THE NATIONAL LEVEL, A KEY QUESTION THAT IS ASKED IS WHETHER INTERNATIONAL COOPERATION COULD (OR SHOULD) BE STRENGTHENED TO AVOID UNDULY RIGID OR VOLATILE EXCHANGE RATES, AND THUS EASE THE PROBLEMS FOR TRADE AND INDUSTRIAL POLICY WHEN EXCHANGE RATES GET OUT OF LINE WITH TRENDS IN UNDERLYING COMPETITIVE STRENGTH.

(2) STRENGTHENING THE MULTILATERAL PROCESS - THE SECOND THEME WHICH APPEARS THROUGHOUT THE PAPER IS THAT SEVERAL RECENT DEVELOPMENTS HAVE UNDERMINED THE STRENGTH OF THE MULTILATERAL PROCESS. THESE DEVELOPMENTS INCLUDE (1) THE INCREASED PARTICIPATION OF THE MICS IN THE TRADING SYSTEM AND THEIR RELUCTANCE TO ACCEPT ADDITIONAL RESPONSIBILITIES ALONG WITH THE BENEFITS OF THAT PARTICIPATION AND, (2) AN INCREASED TREND TOWARD BILATERAL OR TRILATERAL DISPUTE RESOLUTION WHICH FALLS OUTSIDE THE MULTILATERAL PROCESS. THE PAPER CONTENDS THAT WE MUST FIND WAYS TO STRENGTHEN THE SYSTEM, IF THERE IS SUFFICIENT POLITICAL WILL TO DO SO.

(3) NEED TO ADDRESS TRADE PROBLEMS OUTSIDE MANUFACTURING - AGRICULTURAL, COMMODITY AND SERVICES TRADE ARE CONTINUALLY MENTIONED AS THREE AREAS WHERE ADDITIONAL WORK COULD BE DONE TO PROVIDE EXPANDED INTERNATIONAL TRADE DISCIPLINE. THERE ARE VARYING HISTORICAL AND PRACTICAL REASONS WHY GATT RULES FOR THESE SECTORS ARE NOT AS WELL-DEFINED AS FOR TRADE IN MANUFACTURES. HOWEVER, THE PAPER SUGGESTS THAT IN THE 1980'S ADDITIONAL DISCIPLINE IN THESE SECTORS MUST BE GIVEN CAREFUL CONSIDERATION.

(4) COUNTERVAILING POWERS - THE CONCEPT OF QUOTE COUNTERVAILING POWERS END QUOTE APPEARS NUMEROUS TIMES IN THE PAPER. THIS CONCEPT IS USED IN SUGGESTING THAT LDCS AND OTHER POTENTIALLY AFFECTED PLAYERS SHOULD BE INCLUDED IN BILATERAL DISPUTE SETTLEMENT CONSULTATIONS. IT IS ALSO MENTIONED IN THE SUGGESTION THAT CONSUMERS, AND OTHER NON-

GOVERNMENT ENTITIES SHOULD BE ABLE TO PARTICIPATE IN DISPUTE SETTLEMENT MECHANISMS TO BALANCE THE HEAVY EMPHASIS ON BUSINESS, LABOR AND BUREAUCRATIC INPUTS IN THE PROCESS. THIS APPROACH TO QUOTE COUNTERVAILING POWER END QUOTE WOULD LIMIT NATIONAL GOVERNMENTS' CONTROL OVER THEIR DISPUTE SETTLEMENT CONSULTATIONS. THE INSTITUTIONAL IMPLICATIONS OF PROVIDING CONSUMERS AND OTHER AFFECTED PARTIES WITH COUNTERVAILING POWERS ARE NOT DISCUSSED.

## F. U.S. CONCERNS WITH THE PAPER

G. IN GENERAL, THE PAPER IS A COMPREHENSIVE, RELATIVELY UNBIASED COMPILATION OF ISSUES AND QUESTIONS WHICH FACE US IN THIS DECADE. THE EVENNESS OF TREATMENT OF VIRTUALLY ALL ISSUES IN THE PAPER IS PERCEIVED TO BE A WEAKNESS BY MANY WHO HAVE READ IT. HOWEVER, IT SHOULD BE NOTED THAT IT IS NOT THE SECRETARIAT'S MANDATE TO PRIORITIZE ISSUES, RATHER ITS MANDATE IS TO IDENTIFY THE TRADE PROBLEMS WHICH MUST BE ADDRESSED AND ASSIST MEMBERS IN APPROACHING THOSE PROBLEMS.

H. THERE ARE SEVERAL ASPECTS OF THE PAPER WHICH WE VIEW WITH CONCERN. A LIST OF U.S. SUGGESTIONS FOR IMPROVING THE PAPER FOLLOWS.

(1) MONETARY/TRADE LINKAGES (PARAS. 37-44) - WHILE WE SUPPORT THE IDEA OF INCREASED COORDINATION BETWEEN TRADE

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AND GENERAL ECONOMIC POLICIES, THE DISCUSSION OF THE INTER-RELATIONSHIP OF THESE POLICIES IS UNSATISFACTORY. THE LINKS THAT THE PAPER SUGGESTS EXIST BETWEEN THE INTERNATIONAL MONETARY ENVIRONMENT AND TRADE DEVELOPMENTS ARE NOT NECESSARILY CAUSAL OR INJURIOUS, AS THE PAPER INDICATES. WE DISAGREE WITH SOME OF THE BASIC SUGGESTIONS MADE AND GENERALLY FEEL THAT IT IS NOT PARTICULARLY USEFUL TO PURSUE THIS CONTROVERSIAL ISSUE IN THIS PAPER.

(2) PRODUCTIVITY AND REAL WAGES (PARAS. 31-33) - THIS SECTION IS UNCLEAR BUT SEEMS TO IMPLY THAT COUNTRIES SHOULD ADOPT SOME KIND OF AN INCOMES POLICY FOR MANAGING WAGE RATES.

(3) INVESTMENT PERFORMANCE REQUIREMENTS (PARA. 62) - THE DISCUSSION OF TRADE-RELATED INVESTMENT ISSUES IN THE PAPER IS NOT SUFFICIENTLY BALANCED. THE QUESTIONS IN THE SECTION TEND TO EMPHASIZE THE POTENTIAL BENEFITS OF INVESTMENT INCENTIVES WITHOUT ADDRESSING THE COSTS. WE BELIEVE THAT THE QUESTIONS SHOULD BE REVISED TO DETERMINE TO WHAT EXTENT AND UNDER WHAT CIRCUMSTANCES INVESTMENT INCENTIVES AND PERFORMANCE REQUIREMENTS CONTRIBUTE TO TRADE AND

INVESTMENT DISTORTIONS AND LESS EFFICIENT INDUSTRIES. WE COULD ALSO SUGGEST THE ADDITION OF A QUESTION SUCH AS QUOTE TO WHAT EXTENT DO INVESTMENT INCENTIVES AND PERFORMANCE REQUIREMENTS POSE DIFFICULTIES FOR THE GROWTH OF WORLD TRADE AND THE FUTURE OF THE OPEN TRADING SYSTEM END QUOTE.

(4) AGRICULTURE AND THE INTERNATIONAL TRADING SYSTEM: MUCH REMAINS TO BE DONE IN EXTENDING THE COVERAGE OF INTERNATIONAL TRADE RULES TO AGRICULTURAL TRADE. ALTHOUGH THIS IS LIKELY TO BE AN AREA OF PARTICULAR SENSITIVITY TO THE EC AT THE MOMENT, THIS INFORMAL MEETING SHOULD BE USED TO TAKE SOUNDINGS ON THE PROSPECTS FOR IMPROVING COVERAGE OF AGRICULTURE BY THE GATT OR THE CODES.

(5) AGRICULTURAL COMMODITY STABILIZATION (PARAS. 77-82) - LANGUAGE IN THE TEXT INDICATES A POSITIVE ATTITUDE TOWARD ADDITIONAL COMMODITY STABILIZATION AT A TIME WHEN WE ARE WIDELY STATING THE VIEW THAT ADDITIONAL PRICE-RELATED COMMODITY AGREEMENTS WOULD NEITHER BE HELPFUL NOR DESIRABLE. WHILE WE ARE NOT IN FAVOR OF PRICE STABILIZATION AGREEMENTS, WE WOULD NOT OPPOSE AGREEMENTS DESIGNED TO PROMOTE INFORMATION EXCHANGE AND RESEARCH AND DEVELOPMENT ACTIVITY.

(6) AGRICULTURAL EXPORT SUBSIDIES (PARAS. 78, 111) - COVERAGE UNDER GATT - THE DISCUSSION OF HOW TO IMPROVE THE QUOTE INTERPENETRATION END QUOTE OF NATIONAL AND INTERNATIONAL AGRICULTURAL MARKETS SUGGESTS THAT ONE POSSIBLE SOLUTION MIGHT BE THE LIMITATION OF EXPORT SUBSIDIES WITH EVIDENT TRADE DISTORTING EFFECTS. IT IS OUR VIEW THAT SUCH EXPORT SUBSIDIES ARE ALREADY COVERED UNDER THE GATT. HOWEVER, WE FULLY SUPPORT THE OBJECTIVE OF FURTHER STRENGTHENING THE MEANS TO LIMIT SUCH SUBSIDIES.

(7) HIGH TECHNOLOGY TRADE - THE PAPER IS NOTABLY LACKING IN ANY REFERENCE TO TRADE IN HIGH TECHNOLOGY GOODS AND SERVICES (EXCEPT AS IT RELATES TO STRUCTURAL ADJUSTMENT). BECAUSE COUNTRIES NOW RECOGNIZE THE IMPORTANCE OF HIGH TECHNOLOGY TO GROWTH, THEY TEND TO FOLLOW SPECIAL POLICIES, SUCH AS TAX INCENTIVES, TO STIMULATE THIS GROWTH. THESE POLICIES HAVE GIVEN RISE TO PROBLEMS IN HIGH TECHNOLOGY TRADE. THE U.S. HAS SUGGESTED ON NUMEROUS OCCASIONS THAT THIS ITEM BE CONSIDERED ON ANY AGENDA OF TRADE ISSUES FOR THE 1980S. WE STRONGLY URGE THAT IT BE INCLUDED IN THE PAPER.

(8) COUNTERVAILING POWERS (PARAS. 93-97) - AN EXPANDED ROLE FOR THIRD PARTIES (COUNTRIES OR INDIVIDUALS) IN THE DISPUTE SETTLEMENT PROCESS WOULD SIGNIFICANTLY COMPLICATE THE GATT

PROCESS AND IN OUR VIEW WOULD BE A SERIOUS MISTAKE. IN THE CASE OF CONSUMER INPUT, THE U.S. ALREADY TAKES CONSUMER INTERESTS INTO ACCOUNT AS A NORMAL PART OF OUR POLICYMAKING PROCESS AND BELIEVES CONSUMER INPUT IS IMPORTANT. HOWEVER, WE FEEL DECISIONS ON HOW TO INCORPORATE CONSUMER VIEWS SHOULD BE A NATIONAL DETERMINATION.

(9) TRADE IN SERVICES - GIVEN STRONG U.S. SUPPORT FOR DISCUSSIONS ON SERVICES, WE WOULD LIKE TO SEE MORE EMPHASIS PLACED ON SERVICES IN THE PAPER. END ANNEX. HAIG

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DEPARTMENT FOR E-UNDER SECRETARY RASHISH  
EB AND EUR/RPE

USTR FOR AMBASSADOR MACDONALD

E.O. 12065: GDS 12/23/87 (AMBASSADOR A. KATZ) OR-H  
TAGS: ECON, ETRD, OECD

SUBJECT: SECRETARY GENERAL VAN LENNEP'S RESTRICTED  
-- MEETING AT ROYAUMONT - SECRETARIAT NOTES  
-- ON MEETING

REF: STATE 332519

1. ~~CONFIDENTIAL~~ (ENTIRE TEXT)

2. SUMMARY: TO ASSIST UNDER SECRETARY RASHISH AND AMBASSADOR MACDONALD IN THEIR REPORT ON THE ROYAUMONT MEETING (AT WHICH NO MISSION OFFICERS WERE NOT PRESENT), MISSION OBTAINED THIS REPORT FROM SECRETARIAT NOTE-TAKERS. HIGHLIGHTS, AS DESCRIBED BY THEM, WERE (A) DISCUSSION ON MACRO-ECONOMIC/EXCHANGE RATE/TRADE LINKAGES WITH GENERAL CONCLUSION THAT THESE ARE IMPORTANT INTER-RELATIONSHIPS, THAT SECRETARIAT PAPER WENT TOO FAR IN ITS IMPLIED SUGGESTIONS ON COORDINATION, THAT THIS WOULD BE DIFFICULT TO ACHIEVE EVEN IF AD-VISABLE; BUT THAT MACRO POLICY MAKERS OUGHT TO PAY ATTENTION TO TRADE IMPLICATIONS OF THEIR ACTIONS; (B) EXCHANGE OF VIEWS ON KEY CURRENT TRADE ISSUES (TEXTILES, STEEL, AGRICULTURE) AND "PROBLEM OF JAPAN" WHICH UNDERLINED THE COMPLEXITY AND DIFFICULTY OF TRADE RELATIONS WHILE NOT PROVIDING FOR OPTIMISM ON THE FUTURE; (C) EXTENSIVE DISCUSSION ON MICRO-ECONOMIC ASPECTS (STRUCTURAL ADJUSTMENT, SUBSIDIES, TRADE-RELATED INVESTMENT QUESTIONS, RESTRICTIVE BUSINESS PRACTICES) AND THEIR DIRECT EFFECTS ON TRADE, WITHOUT CONCLUSIONS BUT WITH USEFUL SUGGESTIONS ON MODIFICATIONS IN THE SECRETARIAT PAPER; (D) ON THE QUESTION OF TRADE WITH THIRD COUNTRIES, FOCUS PRINCIPALLY ON LDCS WITH AGREEMENT THAT WE MUST BE READY TO OFFER THEM SOMETHING AT GATT MINISTERIAL AND SUGGESTION THAT FURTHER EXCHANGES OF VIEWS AMONG INDUSTRIALIZED COUNTRIES IS ESSENTIAL, AND (E) A PROPOSAL THAT POSSIBILITIES FOR CLOSER COORDINATION AMONG OECD, GATT AND IMF BE INVESTIGATED, STARTING PERHAPS WITH A MEETING AMONG HEADS OF THESE INTERNATIONAL ORGANIZATIONS.

3. REVISED SECRETARIAT PAPER WILL BE FURTHER RE-VIEWED AT THE JANUARY 21-22 XCSS MEETING AND THEN DISTRIBUTED TO ALL INVOLVED OECD COMMITTEES FOR FURTHER COMMENTARY AND ACTION. END SUMMARY.

4. THE PRINCIPAL SOURCES OF THESE NOTES ARE DEPUTY SECRETARY GENERAL MYERSON AND NOTETAKER SERGE DEVOS, DEPUTY TRADE DIRECTOR. BOTH FELT THAT MEETING WAS VERY USEFUL AND GENERALLY VIINDICATED THE GENERAL OUTLINE OF THE SECRETARIAT PAPER AND ITS MAIN CONTENT. THE FOLLOWING IS FROM DEVOS' NOTES AS REPORTED TO US:

-- (A) TRADE AND GENERAL ECONOMIC POLICIES

5. THE DEBATE ON MACRO-ECONOMIC POLICIES STARTED WITH PARTICIPANTS DIVIDED REGARDING TRADE EFFECTS. THE "EXTREME" POSITION TAKEN BY MANY WAS THAT DOMESTIC POLICIES MUST STAND ON THEIR OWN WEIGHT AND ARE NOT DEPENDENT ON EXTERNAL RELATIONS. STILL, IT WAS AGREED THAT THE EXTERNAL EFFECTS MUST BE TAKEN INTO CONSIDERATION IN DOMESTIC POLICY FORMULATIONS. MASS (U.K. AND REPRESENTING THE EPC) WAS PARTICULARLY INSISTENT ON THIS POINT AS WAS JOLLES (SWISS). PAYE (FRENCH) POINTED OUT THE IMPORTANCE OF SOLVING UNEMPLOYMENT PROBLEMS AS IMPORTANT ASPECT FOR CONSIDERATION.

6. ALL AGREED THE ISSUES WERE COMPLEX AND NOTED THAT LONG AND SHORT TERM EFFECTS CAN BE DIFFERENT. IN THIS REGARD, THE RECENT WP-3 DISCUSSION ON JAPANESE POLICIES WAS CITED AS A PARTICULARLY PERTINENT CASE IN POINT. THE JAPANESE DECISION TO REDUCE PRIME INTEREST RATES WAS ACCEPTED AS A REASONABLE STEP TO REFLATE THE ECONOMY, THUS EVENTUALLY INCREASING DEMAND AND IMPORTS. THE SHORT TERM EFFECT WOULD BE TO DEPRESS THE VALUE OF THE YEN AND CONTRIBUTE FURTHER TO JAPAN'S TRADE SURPLUS. IT WAS SUGGESTED THAT IF TRADE REPRESENTATIVES HAD BEEN PRESENT, THEY WOULD HAVE BEEN LESS ACQUIESCENT IN THE JAPANESE MOVE.

7. IN THE DISCUSSION ON EXCHANGE RATES, CONSIDERABLE ATTENTION WAS GIVEN TO THE SUGGESTION IN THE SECRETARIAT PAPER (PARA 44) THAT NOT ENOUGH ATTENTION IS PAID TO THE EXTERNAL EFFECTS ON MONETARY AND EXCHANGE RATE

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--(D) MAJOR CURRENT TRADE ISSUES

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POLICIES AND THE "QUESTION OF WHETHER INTERNATIONAL COOPERATION COULD BE STRENGTHENED SO AS TO AVOID UNDESIRABLY RIGID OR VOLATILE EXCHANGE RATES." BOTH JOLLES AND DENMAN (EC) EXPRESSED CONCERN OVER RECENT EXCHANGE RATE VOLATILITIES, SAYING THAT EFFORTS NEED TO BE MADE TO CONTROL UNDER OR OVERSHOOTING. PAYE FELT THAT COUNTRIES CANNOT BE EXPECTED TO RESOLVE TRADE ISSUES UNLESS APPROPRIATE STEPS ARE ALSO TAKEN IN DOMESTIC POLICIES - E.G., INTEREST RATES.

8. BOTH RASHISH AND MACDONALD OUTLINED U.S. MARKET EMPHASIS IN DOMESTIC POLICIES AND THEIR EFFECT ON PRODUCTIVITY, INVESTMENT, ETC. TO MAKE THE U.S. MORE COMPETITIVE INTERNATIONALLY. JOHNSTONE (CANADIAN) EMPHASIZED THE NEED FOR DOMESTIC POLICIES EFFECTIVELY TO REDUCE INFLATION, INCREASE EMPLOYMENT, ETC. DENMAN AND STEEL (FRG) COMMENTED THAT IF NOTHING IS DONE ABOUT JAPAN, NONE OF THESE PROBLEMS CAN BE LICKED. THEY NOTED THAT IN THE TRADE FIELD WE HAVE A SET OF INTERNATIONAL RULES AND CONVENTIONS BUT NOTHING COMPARABLE IN OTHER AREAS.

-- (B) TRADE AND STRUCTURAL CHANGE

9. DEBATE WAS LESS FOCUSED ON THIS SUBJECT. GENERALLY IT WAS AGREED THAT A DISTINCTION BETWEEN DECLINING AND PROMISING INDUSTRIES CANNOT CLEARLY BE MADE. SIMILARLY, ON GOVERNMENT INTERVENTION, IT WAS AGREED THAT NO CLEAR CUT JUDGMENTS CAN BE MADE A PRIORI ON WHETHER THESE ARE GOOD OR BAD. RASHISH NOTED THAT, ON THE POSITIVE SIDE, GOVERNMENT COULD INTERVENE TO ACCELERATE THE ADJUSTMENT PROCESS BUT THE U.S. IS LOOKING MORE TO MACRO-POLICIES TO ACHIEVE THIS EFFECT. HE ADDED THAT SERVICE INDUSTRIES MUST BE PART OF THIS GENERAL PICTURE.

10. DENMAN, OBSERVING ON THE CONSIDERABLE GOVERNMENT SUPPORT FOR R AND D "ELSEWHERE", FELT THAT PROTECTIVE MEASURES FOR INDUSTRIES IN DIFFICULTY WERE ALL RIGHT FOR "SHORT PERIODS" SUCH AS FIVE YEARS. OTHERS WERE DOUBTFUL ON THIS POINT.

-- (C) TRADE IN SERVICES

11. ON TRADE IN SERVICES, NEARLY ALL--EXCEPTING RASHISH AND MACDONALD--SAID, IT WAS TOO EARLY TO GO TO THE GATT MINISTERIAL. DENMAN SAID WE ARE NOT YET READY TO LAUNCH NEW NEGOTIATIONS IN THIS AREA. STEEG SAID THERE IS SLOW BUT SURE PROGRESS IN THE TRADE COMMITTEE BUT WE ARE NOT READY FOR THE GATT. JOLLES AND COLLANDER (SWEDEN) AGREED. JOHNSTONE SAID CANADA WAS STILL EXAMINING THE QUESTION AND IS NOT YET IN POSITION TO SAY WHETHER SERVICES SHOULD BE ON THE GATT AGENDA. THE JAPANESE WERE SILENT.

12. DENMAN RAISED QUESTIONS ON STEEL AND TEXTILE POLICIES AS WELL AS PROBLEMS OF ACCESS TO THE JAPANESE MARKET AS KEY CURRENT ISSUES WHICH WE SHOULD HANDLE IN A WAY TO AVOID CREATING BIG PROBLEMS. WE SHOULD GO ON WITH AN MFA IN SOME FORM. ON AGRICULTURE, DENMAN EMPHASIZED THAT THE FUNDAMENTAL PRINCIPLE OF THE CAP WILL REMAIN UNCHANGED, THOUGH MODIFICATIONS ARE POSSIBLE.

13. DISCUSSION FOLLOWED ON QUESTIONS OF AGRICULTURAL AND STEEL SUBSIDIES AND "FAIR SHARE OF THE MARKET". JAPAN DEFENDED ITS POSITION ON THE ACCESS QUESTION. THE U.S. SAID THAT SAFEGUARDS SHOULD BE ADDED TO THE MAIN PROBLEM AREAS. OTHERS SAID THIS WAS MAINLY A GATT QUESTION. (NOTE: SECRETARIAT NOTES WERE JUMBLED AND INCOMPLETE AT THIS POINT OF THE DISCUSSIONS.)

-- (E) TRADE RELATED INVESTMENT ISSUES AND RESTRICTIVE BUSINESS PRACTICES.

14. MACDONALD SAID THE SECRETARIAT PAPER GAVE THE IMPRESSION THAT THE MULTATIONALS ARE GUILTY UNLESS PROVEN INNOCENT AND HE THEREFORE HAD STRONG RESERVATIONS ON THESE POINTS IN THE PAPER. ALSO, ON THE QUESTION RAISED IN THE PAPER ON THE EXTENT TO WHICH INVESTMENT PERFORMANCE REQUIREMENTS ARE IN ANSWER TO RESTRICTIVE BUSINESS PRACTICES, MACDONALD FELT THIS WAS PURELY A CANADIAN POINT WHICH WE ARE PREPARED TO EXAMINE OBJECTIVELY BUT NOT ONE WHICH DRIVES THE LDCS WHO HAVE DIFFERENT REASONS; THEREFORE, THE PAPER SHOULD BE CHANGED.

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-- (F) TRADE WITH THIRD COUNTRIES

15. PARTICIPANTS AGREED THAT WE HAVE TO BE READY AT THE GATT MINISTERIAL WITH SOMETHING FOR THE DEVELOPING COUNTRIES. JOLLES URGED THAT OECD COUNTRIES DEVELOP A PROCESS FOR EXCHANGING VIEWS AND IDEAS IN THIS REGARD. (NOTE: NO DECISION WAS MADE ON PROCEDURE BUT DEVOS NOTED THAT NO OBJECTIONS WERE RAISED.) GRADUATION WAS MUCH DISCUSSED BUT NO CONSENSUS REACHED ON WHAT SHOULD BE DONE.

16. ON THE LDGS, PARTICIPANTS GENERALLY AGREED: (A) IT IS DIFFICULT TO BRING THEM FULLY INTO THE GATT SYSTEM, ONE OF THE PROBLEMS BEING THAT WE SET A BAD EXAMPLE BY NOT FULLY APPLYING THE RULES TO OURSELVES; (B) EMPHASIS SHOULD BE ON BRINGING THEM MORE INTO THE CONSULTATIVE PROCESS; AND (C) WE NEED TO HAVE A BETTER FIX ON WHAT LDGS WANT AND WHETHER THIS IS COMPATIBLE WITH THE SYSTEM WE HAVE DEVELOPED.

17. ON EAST/WEST ECONOMIC RELATIONS, THERE WAS GENERAL AGREEMENT THAT NOT MUCH CAN BE DONE UNDER PRESENT CIRCUMSTANCES.

-- (G) THE PROCESS OF INTERNATIONAL COOPERATION ON TRADE ISSUES

18. DENMAN AND PAYE WERE PESSIMISTIC ABOUT OUR ABILITY TO HANDLE WELL THE PROBLEMS OF THE 1980S. THEY FELT THAT DEFENSIVE MEASURES WOULD NEED TO BE TAKEN FOR COUNTRIES TO SURVIVE DOMESTIC PRESSURES. OTHERS WERE SOMEWHAT MORE OPTIMISTIC ON RESOLVING DOMESTIC PROBLEMS AND MAINTAINING THE FREE TRADE PRINCIPLE.

19. TEESE (AUSTRALIA) SAID WE SHOULD LOOK AT EXISTING INTERNATIONAL RULES AND SEE TO WHAT EXTENT WE CAN IMPROVE OR MAKE BETTER USE OF THEM. OTHER PARTICIPANTS FELT WE CANNOT GO MUCH FARTHER IN RULE-MAKING AND SHOULD LOOK MORE TOWARDS IMPROVING CONSULTATIVE MECHANISMS. JOLLES CAUTIONED THAT WE SHOULD NOT MAKE PROGRESS IN RESOLVING TRADE PROBLEMS DEPENDENT ON PROGRESS IN COORDINATING OTHER POLICIES (MACRO-ECONOMIC, MONETARY, ETC.).

20. IN DISCUSSING THE ROLE OF THE OECD IN THE CONSULTATIVE PROCESS, RASHISH FELT ITS STRENGTH LIES IN IT BEING A BODY WHICH DEALS WITH ALL ASPECTS OF MACRO, MICRO AND TRADE MATTERS; ITS WEAKNESS IS THAT IT HAS FORCE PRIMARILY IN MORAL SUASION. MACDONALD ADDED THAT THERE MAY ALSO BE STRENGTH IN NOT FORCING COMMITMENTS ON THE CONSULTATIVE PROCESS BUT NOTED THAT IN SOME AREAS, SUCH AS MHE'S AND EXPORT CREDITS, COMMITMENTS HAVE BEEN MADE.

21. IN LOOKING AT OTHER INTERNATIONAL INSTITUTIONS, SEVERAL PARTICIPANTS (DENMAN, STEEG) SUGGESTED THAT

EFFORTS MIGHT BE MADE TO DRAW THE OECD, GATT AND IMF CLOSER TOGETHER IN THE CONSULTATIVE PROCESS. IT WAS SUGGESTED THAT, AS A FIRST STEP, THE HEADS OF THESE THREE BODIES MEET TO SEE WHAT MIGHT BE DONE. BEYOND THAT, SUGGESTIONS WERE NON-SPECIFIC, WITH SOME THOUGHT OF A COMBINED MEETING WITH EACH BRINGING PART OF ITS CONSTITUENCY WITH IT. TIMING WAS ALSO LEFT INDEFINITE, THOUGH SOME SUGGESTED IT WOULD BE MOST USEFUL IF SUCH A MEETING (OR MEETINGS) WERE HELD BEFORE THE NEXT OECD MINISTERIAL. MENTION WAS MADE OF THE DIFFICULTY OF EXCLUDING UNCTAD. MIYAZAKI (JAPAN) APPEARED TO TAKE LEAST KINDLY TO THIS IDEA, SUGGESTING SEVERAL TIMES THAT MORE ATTENTION SHOULD BE GIVEN TO IMPROVING THE FUNCTIONING OF OECD IN INTER-DISCIPLINARY DISCUSSIONS. STEEG SAID THAT "COMBINED MEETINGS" IN THE OECD - E.G., MACRO-ECONOMIC WITH TRADE PEOPLE - WAS NOT THE WAY TO GO.

22. THE SEVERAL REFERENCES TO "COUNTERVAILING POWER" IN THE SECRETARIAT PAPER WERE SEVERELY CRITICIZED AND THE SECRETARIAT SAID IT WOULD MAKE APPROPRIATE MODIFICATIONS.

-- (H) SECRETARIAT CONCLUSIONS:

23. MARRIS (SECRETARIAT) GAVE THE FOLLOWING SUMMARY OF THE MAIN ISSUES:

- (A) NEW WORK
- 
- EXPORT PROMOTION IN A GENERAL SENSE,
- I.E., BEYOND EXPORT CREDITS
- 
- SUBSIDIES (DISTINCTION BETWEEN SUBSIDIES

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NORTH/SOUTH ISSUES: STATUS OF GLOBAL NEGOTIATIONS

U.S. OBJECTIVES

-- Seek support for the priorities and five principles for positive action outlined by President Reagan at the Cancun Summit: (1) Opening markets, (2) tailoring development strategies, e.g. the CBI, (3) guiding assistance, especially toward food and energy production, (4) improving the climate for private capital flows, and (5) creating a political atmosphere for practical solutions.

-- With respect to Global Negotiations (GNs), reaffirm US willingness to engage in a new preparatory process on the basis of the four understandings expressed by the President at Cancun: (1) Practical orientation toward specific development potential or obstacles, (2) respect for the competence, functions and powers of the specialized agencies, (3) orientation toward mutually beneficial growth and development, and (4) an atmosphere of cooperative spirit.

-- Reaffirm our position that the beginning of GNs is subject to prior mutual agreement on procedures, agenda, and time-frame.

ESSENTIAL FACTORS

The Cancun Summit demonstrated widespread concern about certain global problems, e.g. food, energy, and protectionism and proved that world leaders can discuss such problems in an atmosphere of cooperative spirit free of mutual recrimination. Since Cancun, progress has been made in the trade area in the form of planning for the GATT ministerial. Otherwise, there has been little new movement toward the practical solution of global problems, and disproportionate attention has focused on yet one more attempt by the developing countries (G-77) to launch GNs in the UN General Assembly.

The UNGA was adjourned December 18 without acting on a draft resolution to launch GNs in 1982. Although the G-77 spokesman blamed the US for intransigence, the Group itself could not agree on a united response to US-proposed amendments to a compromise draft attributed to UNGA President Kittani of Iraq. Kittani asked Ambassador Naik of Pakistan to continue informal consultations in the new year. It is not likely that these will have proceeded very far by the time of the XCSS meeting, and the status of GNs may still be uncertain.

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At the meeting, other delegations will probably ask the US representative to explain the US position on GNs. They may trot out stock arguments in favor of GNs in an attempt to get the US to go along with amendments offered by the EC as a compromise between the G-77 and the US.

-- THE US DESIRES TO PRESERVE THE COOPERATIVE SPIRIT OF CANCUN AND WOULD LIKE TO SEE MORE PROGRESS TOWARD THE PRACTICAL SOLUTION OF GLOBAL PROBLEMS. PLANNING FOR THE GATT MINISTERIAL IS A POSITIVE EXAMPLE.

-- WE ARE DISAPPOINTED THAT THE ISSUE OF GLOBAL NEGOTIATIONS CONTINUES TO BE APPROACHED IN A WAY THAT IS UNLIKELY TO LEAD TO PRACTICAL SOLUTIONS.

-- THE US IS WILLING TO ENTER IN A NEW PREPARATORY PROCESS ON GLOBAL NEGOTIATIONS PROVIDED THERE IS ACCEPTANCE OF THE FOUR UNDERSTANDINGS PRESIDENT REAGAN EXPRESSED AT CANCUN, INCLUDING RESPECT FOR THE COMPETENCE, FUNCTIONS, AND POWERS OF THE SPECIALIZED AGENCIES.

-- WE HAVE INSISTED SINCE DECEMBER 1979 THAT THE BEGINNING OF GLOBAL NEGOTIATIONS IS SUBJECT TO MUTUAL AGREEMENT ON PROCEDURES, AGENDA, AND TIME-FRAME. ASSUMING AGREEMENT IS REACHED, THE US WOULD THEN JOIN IN THE LAUNCHING OF GLOBAL NEGOTIATIONS.

-- WE GAVE CONSIDERATION AT THE HIGHEST LEVEL TO THE DRAFT RESOLUTION ATTRIBUTED TO UNGA PRESIDENT KITTANI. CONSISTENT WITH THE FOUR UNDERSTANDINGS, PRESIDENT REAGAN DECIDED THAT CERTAIN CHANGES HAD TO BE MADE IN PARTICULAR TO PROTECT THE SPECIALIZED AGENCIES AND THAT THE WORD

"PRELIMINARY" WAS NECESSARY TO ENSURE THAT THE PROPOSED CONFERENCE WOULD REACH AGREEMENT ON PROCEDURES AND AGENDA BEFORE THE BEGINNING OF GLOBAL NEGOTIATIONS.

-- (IF ASKED) WE REVIEWED THE AMENDMENTS OFFERED IN DECEMBER BY THE EC BUT FOUND THAT THEY DID NOT MEET OUR CONCERNS. THEY DO NOT PROTECT WITH SUFFICIENT CLARITY THE COMPETENCE, FUNCTIONS, AND POWERS OF THE SPECIALIZED AGENCIES, AND THEY DO NOT ENSURE THAT AGREEMENT WILL BE REACHED ON THE PROCEDURES AND AGENDA BEFORE THE BEGINNING OF GLOBAL NEGOTIATIONS.

-- IF OTHER COUNTRIES ARE SERIOUS ABOUT GLOBAL NEGOTIATIONS, WE WOULD URGE THEM TO GIVE THE SAME HIGH-LEVEL CONSIDERATION TO THE US-PROPOSED AMENDMENTS AS WE DID TO THE KITTANI DRAFT.

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Executive Committee in Special Session  
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Other Business

US OBJECTIVES

-- To expand the XCSS agenda to include items of prime concern to the United States.

ESSENTIAL FACTORS

The XCSS was originally established to deal with the inter-relationship among monetary, trade and investment issues. The XCSS, in other words, is supposed to have a broad overlook of international economic relations.

Recently, we have had success in steering the XCSS agenda away from exclusive focus on North/South issues to include items of concern to the US and other OECD members, such as international investment issues, positive adjustment and trade in the 1980's.

We want to build on these efforts and maintain current momentum.

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TALKING POINTS

-- WE WOULD LIKE TO EXPAND THE XCSS AGENDA TO INCLUDE ISSUES OF PRIME CONCERN TO THE OECD MEMBERS. WE HOPE INVESTMENT MATTERS WILL APPEAR ON THE AGENDA FOR THE NEXT XCSS.

-- AT FUTURE XCSS MEETINGS IT WOULD BE USEFUL TO EXPLORE WAYS TO REVITALIZE THE OECD'S WORK PROGRAM IN THE FIELD OF EAST-WEST ECONOMIC RELATIONS.

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OTHER BUSINESS

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Clearances: EUR/RPE:TERussell  
E:MCasse  
EB/EWT:WBeachner  
Commerce:SBilinski  
Treasury:SBrown  
EA/EP:WPiez  
S/P:DLuft

## BRIEFING PAPER

## OECD WORK ON INVESTMENT

U.S. OBJECTIVES

To gain XCSS endorsement of an expanded work program on investment issues.

ESSENTIAL FACTORS

1. Background. Last October, we proposed in the XCSS an expanded OECD effort on investment issues. Subsequently, in the Committee on International Investment and Multi-national Enterprises (CIME), we suggested a work program which called for priority attention to the problem of performance requirements imposed by OECD members and by non-members, together with a continuation of OECD efforts on the use of investment incentives and a strengthening of the national treatment principle. We also initiated a discussion on the performance requirements issue in the Trade Committee. The Trade Committee in November and the CIME in December in general supported the U.S. initiative although some concerns were expressed which are detailed below.

2. Overall U.S. Objectives on Performance Requirements. Our goal is an increase in the international discipline and restraint over interventionist government actions which can distort international investment and trade flows and influence business decisions. Within the OECD, this could take the form of a strengthened OECD Trade Pledge or an extension of the 1976 OECD Declaration and related Council Decisions on Investment. Future action could also include seeking consideration of trade-related performance requirements at the GATT Ministerial in the fall, but we would not include discussion of that in the present XCSS.

3. OECD Work Program on Incentives/Disincentives and Performance Requirements. The CIME's work program on incentives/disincentives includes a survey of performance requirements, an analysis of their impact on trade and investment flows, and of their relationship to existing OECD and GATT instruments. A few key non-OECD countries would be included in the survey. The CIME would also seek the views of the Business and Industry Advisory Committee (BIAC) and the Trade Union Advisory Committee (TUAC). Following the initial CIME survey, the Trade Committee would initiate a work program on trade-related performance requirements.

4. Other OECD Work on Investment. There has, in general, been less disagreement within the OECD regarding future work on national treatment. The CIME in December

approved a work program involving: 1) an updating of the Committee's 1978 Report on National Treatment; 2) further efforts for transparency and clarification, 3) assessment of the relative importance of exceptions to national treatment, and 4) examination of ways and means to extend the principle. In addition to this work program, we seek a reaffirmation of the commitment of all OECD governments to the national treatment principle and concrete agreement to reduce national treatment exceptions over time.

The CIME also has an ongoing effort on guidelines relating to multinational enterprises. The Nordics and a few other delegations place relatively greater emphasis on this aspect than we do. If the question arises, U.S. delegates should indicate that we favor a work program balanced between the guidelines and the other investment issues.

5. Goals for this XCSS Meeting. The CIME and Trade Committee chairmen are expected to report to the XCSS on the results of their respective meetings on these issues. XCSS endorsement is needed as the issue involves several committees. We should use this opportunity to reiterate the urgency and importance of the work program of the CIME and Trade Committees. While the majority generally supported the U.S. initiative, several concerns were raised in earlier meetings and the U.S. delegate may need to address them at the XCSS if other delegations restate them. The concerns were: 1) that the proposed work program would overload the Secretariat; 2) that the work would duplicate similar work being done under IBRD auspices; and 3) that non-OECD countries should not be included in the performance requirements survey. In addition, the Canadians have argued that the OECD work ~~should include an examination of MNE practices which "cause"~~ governments to impose performance requirements. (We have taken the position that this question could be included conceptually as part of the broad performance requirements issue, but that the Secretariat should not be asked to do any original research on this question.)

6. Future Consideration by the XCSS. We will likely want to include investment issues on the agenda of the Spring OECD Ministerial but should leave our options open now on this question. If investment is discussed at the Ministerial, we might also want to include the subject on the agenda of the next XCSS. In any case, we should encourage the XCSS to continue to monitor developments.

TALKING POINTS

-- THE INVESTMENT AND TRADE COMMITTEE CHAIRMEN AND THEIR COMMITTEES ARE TO BE COMMENDED FOR THEIR LEADERSHIP AND EFFORT IN MOVING THE OECD FORWARD ON THESE IMPORTANT TRADE AND INVESTMENT ISSUES.

-- WE SHOULD BUILD ON PAST EFFORTS, ESPECIALLY THE 1976 INVESTMENT DECLARATION AND ASSOCIATED DECISIONS, TO EXPAND AND STRENGTHEN OUR COUNTRIES' COMMITMENTS TO FREE CAPITAL FLOWS. WE SHOULD PINPOINT THE DISTORTING EFFECTS OF PERFORMANCE REQUIREMENTS AND DEVELOP WORKABLE PROPOSALS FOR ADDRESSING THIS PROBLEM IN A MULTILATERAL FRAMEWORK. WE SUPPORT THE ADOPTION BY THE COMMITTEES OF THE WORK PROGRAM ON INVESTMENT INCENTIVES AND DISINCENTIVES, WITH PARTICULAR EMPHASIS ON PERFORMANCE REQUIREMENTS. WE ALSO SUPPORT THE DECISION TO INCLUDE BOTH OECD MEMBERS AND NON-MEMBERS IN THE STUDY.

~~WE RECOMMEND ALSO THAT OTHER COMMITTEES, INCLUDING~~  
THE INDUSTRY COMMITTEE, DEVELOPMENT ASSISTANCE COMMITTEE, AND THE CAPITAL MOVEMENTS COMMITTEE, CONTINUE REVIEWING WORK IN THEIR AREAS WHICH COULD CONTRIBUTE TO IMPROVED INVESTMENT FLOWS.

--THE OECD WORK ON INVESTMENT INCENTIVES AND DISINCENTIVES, COMBINED WITH THAT BEING DONE BY THE WORLD BANK, WILL ESTABLISH A FOUNDATION FOR AN EXPANDED COMMITMENT TO AN OPEN INVESTMENT CLIMATE IN BOTH THE DEVELOPED AND DEVELOPING COUNTRIES. THE GLOBAL ALLOCATION AND USE OF RESOURCES MUST

BE MADE AS EFFICIENT AS POSSIBLE AND NOT BE DISTORTED BY THE USE OF INCENTIVES AND DISINCENTIVES OR OTHER SIMILAR NATIONAL PRACTICES.

-- ON THE NATIONAL TREATMENT PRINCIPLE, THE U.S. IS CONCERNED THAT A FEW MEMBER COUNTRIES MAY NO LONGER SHARE THE CIME'S ORIGINAL COMMITMENT TO STRENGTHENING OF THE PRINCIPLE. WE SHOULD WORK TOGETHER AND SUPPORT AN IMPROVED NOTIFICATION PROCESS AND CONSULTATIVE MECHANISM AND WE SHOULD CONCENTRATE MORE ON IMPROVING THE CONDITIONS OF ACCESS AND OVERALL TREATMENT OF SERVICES INDUSTRIES.

-- THE OECD WORK PROGRAM ON NATIONAL TREATMENT WILL REFINE AND EXTEND PREVIOUS EFFORTS. WE SHOULD ALL REEXAMINE OUR NATIONAL PRACTICES WHICH MAY BE EXCEPTIONS TO NATIONAL TREATMENT, AND WE SHOULD ACCELERATE MOVEMENT TOWARD ELIMINATING OR REDUCING THESE EXISTING EXCEPTIONS.

-- WE RECOMMEND THAT THE XCSS CONTINUE TO FOLLOW THESE ISSUES CLOSELY.

TALKING POINTS FOR CONTINGENCY USE

-- (If other dels raise concerns that these initiatives could detract from work on the guidelines, U.S. del should respond along the following lines:) WE FAVOR A WORK PROGRAM THAT IS BALANCED BETWEEN INCENTIVES AND DISINCENTIVES, NATIONAL TREATMENT, AND THE GUIDELINES, AND WE FEEL THIS SHOULD BE REFLECTED IN THE ALLOCATION OF SECRETARIAT RESOURCES.

-- (If raised, regarding duplication of work between IBRD and OECD.) WE DON'T BELIEVE THERE IS SIGNIFICANT DUPLICATION. THE IBRD STUDY WILL NOT BE AVAILABLE UNTIL 1983 AT THE EARLIEST, WILL NOT FOCUS ON THE PARTICULAR IMPACT ON THE OECD COUNTRIES, AND WILL BE LIMITED TO A VERY FEW SECTORS AND A FEW COUNTRIES.

-- (If raised, regarding practices of MNEs which cause countries to impose performance requirements.) WE DO NOT OBJECT CONCEPTUALLY TO INCLUSION OF THIS QUESTION IN THE OECD STUDY. WE THINK THAT THE OECD SECRETARIAT SHOULD DRAW ON EXISTING INFORMATION IN DEALING WITH THIS QUESTION AND SHOULD NOT BE ASKED TO UNDERTAKE AN EXTENSIVE RESEARCH EFFORT ON IT. IN GENERAL, WE THINK THAT THESE PRACTICES ARE MAINLY AIMED AT INFLUENCING TRADE FLOWS AND ARE NOT PRIMARILY RESPONSES TO PRACTICES OF MNEs.

-- (If raised, regarding excessive workload for the Secretariat.) WE RECOGNIZE THAT THE WORK PROGRAM WILL REQUIRE A CERTAIN AMOUNT OF SECRETARIAT RESOURCES. WE BELIEVE, HOWEVER, THAT INVESTMENT ISSUES FULLY DESERVE HIGH PRIORITY OECD CONSIDERATION AND THAT THE WORK PROGRAM ADOPTED BY THE CIME WILL NOT IMPOSE AN UNDUE BURDEN.

-- (If raised, regarding inclusion of non-OECD members in the study of investment incentives and disincentives.) WE BELIEVE THE USE OF INVESTMENT INCENTIVES AND DISINCENTIVES IS A GLOBAL PROBLEM. OUTSIDE THE OECD, THE LDCs, AND PARTICULARLY THE NICS, HAVE SUCH EXTENSIVE ECONOMIC RELATIONS

WITH THE OECD COUNTRIES THAT WE FEEL THEIR INCLUSION IN THE  
FUTURE WORK PROGRAM TO BE NECESSARY FOR A MEANINGFUL  
ASSESSMENT OF THE PROBLEM. IN ADDITION, CERTAIN OF THESE  
COUNTRIES IMPOSE PERFORMANCE REQUIREMENTS EXTENSIVELY AS  
A MATTER OF POLICY.



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EAST-WEST ISSUES

U.S. OBJECTIVES

-- To engage in a substantive exchange of views on the situation in Poland as well as on US measures imposed against Poland and the USSR.

-- To share information and judgments about the situation in Poland and Eastern Europe.

-- To overcome the reluctance (opposition) of a number of OECD member countries to support actively work on economic relations with CMEA countries in the OECD.

ESSENTIAL FACTORS

The work of the OECD on East/West economic questions has fallen short of our expectations, although the Secretariat has prepared some excellent papers on the economic situation in the Eastern European countries and phenomena such as countertrade. We have been disappointed with member State participation in and the quality of discussions of East-West economic issues in the Trade Committee's East-West Working Party, founded at our initiative in 1976. Many members have been unwilling to participate actively in these discussions because of their "political content." It is important that we do not discuss this issue in East-West political terms; therefore the stress on economic interdependence between OECD and CMEA.

During meetings last fall with senior Department officials (Rashish and Eagleburger), OECD Secretary General van Lennep suggested that he would take the initiative in trying to revitalize East-West work in the OECD, but would need strong U.S. support.

At the January 22 working lunch, Secretary General van Lennep will briefly review the work of the organization on this subject and raise some of the issues bearing on economic and trade relations with centrally planned economies. In particular, van Lennep is expected to dwell on the debt situation of the Eastern European countries and its implications, and on the extent to which the centrally planned economies should be encouraged to play a more active role in the international trading system.

We should endorse van Lennep's interest in energizing the OECD's work on East-West economic relations and seek support for putting East-West issues on the agenda for the next XCSS.

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The exchange of views on East-West at the January 22 lunch will also give us an opportunity to discuss our concerns over the situation in Poland and to review developments since the January 11 NATO Ministerial. (See separate briefing paper on Poland).

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TALKING POINTS

-- OUR FRIENDS AND ALLIES ARE ASKED TO AGREE NOT TO TAKE ANY STEPS THAT WOULD UNDERCUT THE ACTIONS TAKEN BY THE US GOVERNMENT AGAINST POLAND OR THE USSR.

-- WE HAVE ASKED OUR ALLIES TO TAKE PARALLEL MEASURES APPROPRIATE TO THEIR CIRCUMSTANCES.

-- POLITICAL AND ECONOMIC SANCTIONS SHOULD BE REVERSIBLE; MAXIMIZING THE SCOPE FOR REDUCING SANCTIONS IN CASE OF BETTER PERFORMANCE ON HUMAN RIGHTS BY THE JARUZELSKI REGIME.

-- INCREASED REPRESSION IN POLAND, OR GREATER SOVIET INVOLVEMENT WILL LEAD TO FURTHER US AND WESTERN STEPS.

-- THE WEST SHOULD BE READY TO CONSIDER ADDITIONAL AID FOR POLAND IF MARTIAL LAW IS LIFTED, CIVIL LIBERTIES RESTORED, AND GENUINE NEGOTIATIONS BEGUN AMONG THE GOVERNMENT, CHURCH AND SOLIDARITY.

-- THE INCREASINGLY DIM ECONOMIC PROSPECTS AND MOUNTING DEBT BURDENS OF EAST EUROPEAN COUNTRIES AND THE USSR AND THE IMPLICATIONS THESE HAVE FOR OECD MEMBERS WARRANT CONTINUED ATTENTION TO CMEA ECONOMIC QUESTIONS BY THE OECD.

-- WE WELCOME THE SECRETARY-GENERAL'S EFFORTS TO ENERGIZE OECD WORK ON THE STRICTLY ECONOMIC ASPECTS OF OECD INTERDEPENDENCE WITH EASTERN EUROPE AND THE SOVIET UNION.

-- THE SECRETARIAT HAS PRODUCED SOME FIRST RATE STUDIES ON ISSUES SUCH AS COUNTERTRADE, ECONOMIC REFORMS AND CURRENT ECONOMIC CONDITIONS IN THE EAST. HOWEVER, STRONGER SUPPORT AND MORE ACTIVE PARTICIPATION BY MEMBER GOVERNMENTS IS NEEDED. WE ARE PREPARED TO LEND OUR SUPPORT AND PROPOSE THAT THE XCSS DISCUSS THESE ISSUES ON A MORE REGULAR BASIS.

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OECD Executive Committee in Special Session  
January 21-22, 1982

Distortions to Trade through Financing

US Objectives

1. To reiterate our opposition to export financing practices which distort market forces.
2. To stress the importance of further improvements in the Arrangement on Guidelines for Export Credits, aimed at reducing the subsidy element.
3. To prevent others (possibly the French) from turning attention away from the Arrangement or linking it with other trade questions.

Essential Factors

The US has long opposed export financing practices which, through interest rate subsidization, distort market forces in international trade. We believe financing should be neutralized as a competitive factor. Since 1978, we have sought revisions that would bring the Arrangement on Guidelines for Officially Supported Export Credits (the Arrangement) more closely into line with current financial market conditions.

Our objective is to establish an international regime under which export credits bear interest rates and maturities reflecting market conditions. Interest rates should be no lower than the cost of borrowing to governments in the currency concerned. In practice, there has been significant opposition to such a differentiated rate system, especially from France.

At their October meeting, participants in the Arrangement agreed to increase minimum interest rates to 10-11 1/4 percent, depending on the relative wealth of the borrower, and to tighten the provisions on mixed credits. Countries with low market interest rates were allowed to charge their market interest rates or 9.25 percent, whichever is higher.

Earlier, the US had agreed with the main partners of Airbus Industrie, (UK, FRG and France) to set minimum interest rates on large commercial aircraft at 12%. (Aircraft, nuclear power plants and ships are not covered by the Arrangement.)

The US is also interested in other improvements in the multilateral guidelines on export credits. There are several problems that need to be addressed:

- guidelines for sectors not covered by the Arrangement, especially nuclear power and general aviation aircraft;
- curtailment of the use of mixed credits (tied aid credits) to gain a commercial advantage; and
- extension of the discipline of the guidelines to countries not members of the OECD.

TALKING POINTS

-- THE US REMAINS COMMITTED TO THE REDUCTION AND EVENTUAL ELIMINATION OF OFFICIAL EXPORT CREDIT SUBSIDIES.

-- LAST OCTOBER, WE WERE ABLE TO MAKE A SIGNIFICANT BREAKTHROUGH TOWARD THIS OBJECTIVE BY RAISING THE MINIMUM EXPORT CREDIT INTEREST RATE FOR MOST CURRENCIES TO 10 PERCENT. THIS WAS A LAUDABLE FIRST STEP. HOWEVER, INTEREST RATES ON LONG-TERM GOVERNMENT INSTRUMENTS IN SEVERAL MAJOR CURRENCIES ARE SIGNIFICANTLY HIGHER THAN 10 PERCENT.

-- THEREFORE, WE NEED TO CONTINUE THE WORK BEGUN LAST OCTOBER. WE EXPECT FURTHER MOVEMENT TOWARD MARKET INTEREST RATES AT THE MEETINGS OF THE PARTICIPANTS IN MARCH AND MAY. MINIMUM EXPORT CREDIT RATES SHOULD TAKE BETTER ACCOUNT OF THE VARYING LEVELS OF INTEREST RATES IN DIFFERENT CURRENCIES.

-- WE WILL BE EXPLORING OTHER AREAS WHERE INTERNATIONAL EXPORT CREDIT PRACTICES CAN BE IMPROVED. INDUSTRIAL EXPORT

SECTORS NOT NOW COVERED BY THE ARRANGEMENT -- SUCH AS NUCLEAR  
POWER AND AIRCRAFT -- MIGHT BE INCLUDED UNDER ITS DISCIPLINE OR  
PREFERABLY AN EVEN STRONGER DISCIPLINE.

-- MIXED CREDITS SHOULD ALSO BE SUBJECTED TO STILL  
GREATER DISCIPLINE.

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MACROECONOMIC OUTLOOK-OECD AREA

Overview

In most non-US OECD economies, the struggle to beat back inflation and adjust to the second major oil shock continues to receive top priority. However, the length and depth of the recession threaten to undermine further the consensus on continued anti-inflationary policies, which has already been deserted by France. The recession is also increasing protectionist pressures and exacerbating trade tensions, especially around the US, the EC, and Japan.

Non-US OECD inflation is declining, but improvement is slow. The average inflation rate in these OECD countries peaked in 1980 at 11.4 percent but eased to about 10.5 percent in 1981. Among the large OECD countries inflation rates now range from about 5 percent in Germany and Japan, to about 19 percent for Italy. Inflation in the non-US OECD area should continue to decrease this year, probably falling to about 9 percent. While inflation appears to be following the same pattern of decline as in the period following the first OPEC price shock, unemployment is still rising and could reach an average of 7.8 percent this year (up from 7.2 percent in 1981). However, high interest rates throughout the OECD have eased modestly, reflecting continued weakening of private credit demands, a sharp decline in US rates, and the recent devaluations of the French Franc and Italian Lira within the European Monetary System. With stable dollar prices for oil, the 1982 non-US OECD current account deficit should fall again (perhaps to around \$30 billion). Under this key assumption, moderate recovery is in prospect for 1982. Overall, non-US OECD growth should reach 2 percent (up from .75 percent last year). The expected second-half 1982 upswing in the US should also help strengthen the recovery in the remainder of the OECD.

Individual Countries

Among the larger European economies, Germany's restrictive monetary and budget policies have been spurred by its fear of inflation (6.0 percent in 1981 was high by German standards) and its efforts to defend the DM in the face of large current account deficits (\$16 billion in 1980 and \$8.5 billion in 1981). Recession has hit this stalwart economy fairly hard. Real output declined by more than 0.5 percent in 1981 and latest indications are that growth this year will be between 1 and 1.5 percent, significantly less than previously anticipated. Unemployment

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could reach 6 percent (or 1.6 million workers) in 1982, up from 3.8 percent in 1980. However, inflation is easing considerably and should help bolster an export-led recovery in the second-half of 1982. The Socialist government in France is determined to expand the economy as rapidly as possible while relying on incomes policy to ease the inflationary effects of expansion. The government is banking on higher minimum wages and transfer payments to stimulate consumption and increased state interventionism to stimulate employment. Real GNP stagnated in the first half of 1981, but recovery began in the third quarter and should continue into 1982 with growth reaching 2½ to 3 percent. Inflation, already a major problem at about 14½ percent in 1981, will probably be aggravated by government policies. In the U.K., there is no wavering in the government's determination to hold to its policies of reducing the rate of inflation by strict control over money supply growth and of restoring the conditions for faster real growth through reduced government involvement in the economy. However, real output is in its second consecutive year of decline while unemployment has now risen to well over 10 percent. As a result, Thatcher is coming under increasing attack from all sides, particularly within her own party. Considerable progress was made against inflation last year (12 percent compared to 18 percent in 1981) and should continue into 1982. The third quarter of 1980 brought the first positive real growth in two years, and the recovery should continue into 1982. Unemployment will continue to rise, but at a declining rate. The Italian economic slump seems to be deepening. Third quarter 1981 output dropped 1.6 percent following a second quarter decline of 1.2 percent. Meanwhile, anti-inflation policies have been less effective than elsewhere with prices increasing by about 20 percent in both 1980 and 1981. The projected economic picture remains gloomy with higher unemployment rates and a large current account deficit expected in 1982. Major problems include large government deficits, widespread indexing and weakened foreign trade competitiveness.

Japan's inflation rate fell to 5 percent in 1981 and should continue to moderate this year. The external sector is expected to pave the way to stronger growth in 1982 (at about 4 percent) as witnessed by a projected current account surplus near \$18 billion. Much of this surplus will be due to Japan's enormous (perhaps \$18 billion) bilateral trade surplus with the US, and the EC (\$10 billion). After performing better than expected during the first half of 1981, the Canadian economy switched gears in the third quarter (real output fell by 4.2 percent). Unemployment, already a problem at 7.5 percent in 1980, reached 8.3 percent in October 1981. Meanwhile inflation worsened last year (up to around 12 percent) and little relief is in sight.

In the smaller OECD economies, reduced growth in major trading partners has hit exports and weakened economic performance (real output rose by about .8 percent last year, down from 2 percent in 1980). Some export-led improvement can be expected in 1982, but overall growth will still be low (less than 2 percent). Countries especially affected by worsening performance include Austria, Belgium, Luxembourg, the Netherlands, and Sweden. Inflation in the smaller OECD countries should average about 12.0 percent this year, down from 14.0 percent in 1981.

Attachment: As stated



TABLE NO. 1

West Germany

	<u>Real Growth, GNP</u>				<u>Change in CPI</u>				<u>Current Account</u> <u>(Bil US \$)</u>				<u>Unemployment Rate</u>			
	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>
Actual	4.5	1.8			4.1	5.5			-5.5	-16.4			3.8	3.8		
Treas (Jan)			-0.6	0.9			6.0	5.2			-9.0	2.0			N.A.	N.A.
OECD (Dec)			-1.0	1.3			5.8	4.3			-8.5	1.8			5.0	6.0
Official (Oct)			-1.0	1.0-2.0			N.A.	N.A.			N.A.	N.A.			N.A.	N.A.
DRI (Dec)			-1.0	1.4			5.9	4.5			N.A.	N.A.			5.5	6.8
WEFA (Dec)			-1.1	0.7			5.8	5.6			-8.1	-4.2			4.7	6.2

Notes to Tables:

DRI is Data Resources Inc. (Lexington, Massachusetts)

WEFA is Wharton Econometric Forecasting Associates (Philadelphia, Pennsylvania)

N.A. - Not Available

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TABLE NO. 2

France

	<u>Real Growth, GNP</u>				<u>Change in CPI</u>				<u>Current Account</u> <u>(Bil US \$)</u>				<u>Unemployment Rate</u>			
	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>
Actual	3.2	1.3			10.8	13.6			1.2	-7.8			5.9	6.3		
Treas (Jan)			0.3	2.7			14.5	15.5			-7.3	-10.8			N.A.	N.A.
OECD (Dec)			0.5	2.5			13.5	13.8			-6.5	-6.8			7.5	8.5
Official (Oct)			0.5	3.3			13.4	12.9			N.A.	N.A.			N.A.	N.A.
DRI (Dec)			0.1	2.8			13.5	14.5			N.A.	N.A.			7.6	8.4
WEFA (Dec)			0.7	1.5			13.5	15.0			-3.1	-2.3			7.5	8.2

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TABLE NO. 3

United Kingdom

	<u>Real Growth, GNP</u>				<u>Change in CPI</u>				<u>Current Account</u> (Bil US \$)				<u>Unemployment Rate</u>			
	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>
Actual	1.1	-1.4			13.4	18.0			-1.8	7.7			4.9	6.3		
Treas (Jan)			-3.0	1.0			11.9	10.0			12.0	4.9			N.A.	N.A.
OECD (Dec)			-2.0	0.3			11.0	10.3			14.5	2.3			10.5	12.0
Official (Nov)			-2.0	1.0			10.0	N.A.			6.0	N.A.			N.A.	N.A.
DRI (Dec)			-3.0	1.5			11.8	9.9			N.A.	N.A.			9.8	11.1
WEFA (Dec)			-2.1	1.2			11.1	10.5			5.7	-0.8			10.6	11.8

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TABLE NO. 4

Italy

	<u>Real Growth, GNP</u>				<u>Change in CPI</u>				<u>Current Account</u> (Bil US \$)				<u>Unemployment Rate</u>			
	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>
Actual	5.0	4.0			14.8	21.2			5.2	-9.8			7.7	7.6		
Treas (Jan)			-1.0	0.8			18.7	17.0			-8.8	-4.4			N.A.	N.A.
OECD (Dec)			0.0	1.0			19.3	16.0			-9.5	-5.0			8.3	9.0
Official (Sept)			0.0	1.0			19-20	17-17.5			-9.7	-7.5			N.A.	N.A.
DRI (Dec)			0.3	1.4			20.4	19.4			N.A.	N.A.			8.3	8.8
WEFA (Dec)			0.0	2.7			19.1	16.9			-13.6	-11.5			8.0	8.4

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TABLE NO. 5

Japan

	<u>Real Growth, GNP</u>				<u>Change in CPI</u>				<u>Current Account</u> (Bil US \$)				<u>Unemployment Rate</u>			
	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>
Actual	5.9	4.0			3.6	8.0			-8.8	-10.7			2.1	2.0		
Treas (Jan)			3.4	4.0			4.9	4.0			5.5	18.0			N.A.	N.A.
OECD (Dec)			3.8	3.8			4.8	4.5			5.5	17.0			2.3	2.3
Official (Nov)			4.7	N.A.			5.0	N.A.			6.5	7.6			N.A.	N.A.
DRI (Dec)			3.5	4.5			4.8	2.6			6.5	18.8			2.3	2.3
WEFA (Dec)			4.2	4.0			5.2	4.4			6.4	9.6			2.2	2.2

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TABLE NO. 6

Canada

	<u>Real Growth, GNP</u>				<u>Change in CPI</u>				<u>Current Account</u> (Bil US \$)				<u>Unemployment Rate</u>			
	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>
Actual	2.9	0.0			9.1	10.2			-4.3	-1.6			7.4	7.5		
Treas (Jan)			2.4	0.0			12.5	11.2			-6.2	-7.7			N.A.	N.A.
OECD (Dec)			3.0	1.0			11.5	11.5			-7.5	-10.8			7.5	8.3
DRI (Dec)			2.8	0.6			12.4	10.7			-7.9	-9.6			7.6	8.5
WEFA (Dec)			2.8	1.3			12.5	12.4			-4.7	-4.6			7.3	7.2

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ANNEX

U. S. ECONOMIC OUTLOOK

The recession in the U.S. is continuing into 1982, but there are signs that downward momentum is diminishing. Following a sharp drop in the fourth quarter of 1981 (estimated at about 5½ percent), real GNP is expected to decline much more moderately in the current quarter and then stabilize, setting the stage for a fairly vigorous expansion in the second half of the year (at about 5 percent). The unemployment rate -- now at 8.9 percent (as of December, 1981) -- could reach 9 percent or even slightly higher before it turns downward during the second half of the year. Meanwhile, the inflation picture is showing significant improvement. Increases in consumer and wholesale prices have subsided quite markedly in the past year. They should moderate even further in 1982, with consumer prices perhaps down to 7-7.5 percent (almost half of 1980 rate of 13.5 percent). Wage rates and the GNP deflator have not performed as satisfactorily, but are expected to show substantial improvement during the course of 1982.

Interest rates are now well below their 1981 peaks. Short-term rates are already about 4 percentage points below what they were just several months ago. This pattern of overall decline in interest rates should continue at least for the first half of the year and help bolster the anticipated recovery. One uncertainty in the interest rate picture is the possible effects of large Federal deficits. Actions to reduce these prospective deficits through further cuts in non-defense expenditures and measures to expand revenues are now being considered.

LIMITED OFFICIAL USEENERGY-IMPLICATIONS OF CURRENT  
SUPPLY/DEMAND OUTLOOKU.S. OBJECTIVES

-- To encourage the build-up of oil security stocks during this favorable market period.

-- To encourage further deregulation of national energy markets (e.g., natural gas price decontrol) which might be more difficult politically under tight market conditions.

-- To prevent the renewal of any pressure from some of our European allies for a formal sub-trigger crisis mechanism and/or highly interventionist stock management policies during an oil supply crisis.

ESSENTIAL FACTORS

The facts show a decline in IEA oil consumption of 8% between 1979 and 1980, and we expect another 5-7% decline between 1980 and 1981. Although much of this decline is attributable to long-term structural change, a significant portion may be due to cyclical, and therefore reversible, factors such as weather and economic activity.

If the present slow energy growth environment continues over the longer term, IEA nations' net oil imports can be expected to fall to 21 million barrels per day in 1985 and to 18-19 mb/d in 1990. Throughout the decade, total energy use may grow at only a 0.5-1.0% annual rate. In this environment, a key energy issue will be the rate at which industrial economies switch from oil to such conventional alternatives as coal, nuclear power, and natural gas.

If investment in more efficient plant and in non-oil energy sources is delayed by a combination of complacency, high interest rates, and poor economic growth, developed country oil consumption could be higher than anticipated with substantial upward price pressure in the second half of the 1980's. Demand pressure would be aggravated by fairly rapid increases in OPEC and in other developing countries.

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BY AV NA DATE 4/20/10



-- We believe that large stocks and the free play of market forces offer the most effective protection against supply interruptions. In the U.S. the decrease in commercial stocks is being partially offset by SPR purchases, including a long term contract with Mexico. Since the Reagan administration took office, the U.S. has more than doubled the amount of oil in the Strategic Petroleum Reserve, which is presently at a level of one-quarter of a billion barrels of oil. We are continuing to fill it at a rate of 300,000 barrels per day. At the same time, we remain committed to a multilateral approach to oil emergencies -- as set out in the International Energy Program -- rather than a unilateral approach.

January 7, 1982

DEPARTMENT OF STATE  
BRIEFING PAPER

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BY WJ NLRR 007-081 \*51003  
NARA TE 4/20/10

EXECUTIVE COMMITTEE IN SPECIAL SESSION  
January 21-22, 1982

POLAND

U.S. OBJECTIVES

-- Our objectives with regard to Poland are two-fold. First and foremost we seek to reduce repression. This could be achieved by ending martial law, releasing the detainees and restoring a dialogue with the Church and Solidarity. The second is to avoid turning a defeat for the East into a defeat for the West. To this end, we must take concerted action with a view to improving the situation in Poland.

ESSENTIAL FACTORS

The Polish economy is in a shambles. In 1981, national income dropped 15%, the third straight year of decline; coal production slumped to its lowest level since 1974; production of meat declined 25%; dairy production declined 8%; the supply of consumer goods was down 10%; exports dropped 14% and 1982 interest payments on Poland's debt to the West will amount to \$605 million. There is no justification for these appalling statistics. Poland can and should be a prosperous and productive country. Western nations must encourage a return to reform and renewal and assist in Poland's economic recovery. Thus our actions must be aimed toward decreasing repression in Poland and toward a readiness to assist in rebuilding the economy when the repression is lifted.

TALKING POINTS

-- THE SPECIFIC STEPS THE U.S. IS TAKING NOW ARE AIMED AT THE LIFTING OF MARTIAL LAW, RELEASE OF POLITICAL PRISONERS AND A RESUMPTION OF THE PROCESS OF NEGOTIATIONS. THEY ARE REVERSIBLE, MAXIMIZING THE SCOPE FOR COMPROMISE AMONG ALL PARTIES IN POLAND.

-- ON DEBT, WE HAVE AGREED WITH OTHER CREDITORS NOT TO INVOKE THE "EXCEPTIONAL CIRCUMSTANCES" CLAUSE AT THIS TIME. WE

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DO NOT WISH TO PUSH POLAND INTO A DEFAULT WHICH WILL DESTROY WHAT REMAINS OF ITS ECONOMY.

-- THE U.S. HAS TAKEN NO ACTION TO INFLUENCE PRIVATE BANKERS IN REGARD TO POLISH DEBTS.

-- ON HIGH TECHNOLOGY LICENSES, THE U.S. HAS ASKED COCOM PARTICIPANTS TO AGREE NOT TO SEEK EXCEPTIONS FOR SHIPMENTS TO POLAND.

-- ON EXPORTS OF ENERGY ITEMS TO THE USSR, THE U.S. HAS SUSPENDED ISSUANCE OF LICENSES TO PUT PRESSURE ON THE SOVIET UNION TO CEASE ITS INTERVENTION IN POLAND.

-- IN ALL THE ECONOMIC SANCTIONS WE HAVE INITIATED, OUR INTENT IS NOT TO DAMAGE FURTHER THE POLISH ECONOMY OR TO DO LONG-TERM DAMAGE TO THE SOVIET ECONOMY. OUR INTENT IS TO GET THE POLISH MILITARY GOVERNMENT TO STOP REPRESSIVE ACTIONS AND TO ENCOURAGE THE USSR TO CEASE ITS INTERVENTION IN POLISH AFFAIRS.

-- WE ARE CONTINUING OUR HUMANITARIAN ASSISTANCE TO POLAND AND CONSIDERING INCREASING IT. WE ARE ENCOURAGING OTHERS TO DO LIKEWISE.

-- TO BE EFFECTIVE, WE NEED THE ACTIVE SUPPORT AND ASSISTANCE OF OUR ALLIES. CONCERTED ACTION WILL HAVE THE GREATEST CHANCE OF TURNING THE SITUATION IN POLAND AROUND.

-- IN THIS CONNECTION, WE ARE COUNTING ON ALLIES AND FRIENDS NOT TO UNDERCUT ACTIONS ALREADY TAKEN BY THE U.S. IN REPLY TO THE REPRESSION IN POLAND.

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DEPARTMENT OF STATE  
BRIEFING PAPER

International Trade Problems

U.S. OBJECTIVES

To share with OECD members our concerns about the deteriorating international trade environment, and our view that close cooperation is essential in the coming months if we are to avoid a new era of protectionism.

ESSENTIAL FACTORS

Trade tensions, aggravated by the current recessions in the United States and Europe, pose a serious threat to maintenance of an open international trading system.

TALKING POINTS

- All trading nations must resist protectionist pressures, particularly now, when economic conditions are difficult.
- The economic measures taken by the Reagan Administration will revitalize the U.S. economy, which will in turn benefit our trading partners. A sound U.S. economy is essential to a strong trading system.
- We are profoundly concerned by impediments to free trade, whether tariffs or other barriers to fair market access, export financing practices or internal subsidies and other measures which permit unfair competition.
- We all have an interest in drawing developing countries further into the international trading system, and helping them stimulate their economies through trade and private investment.
- There is a need for a continuing consultation between and among trading countries. The recent quadripartite discussions in Florida, the bilateral US-EC and US-Japan consultations, the US-EC Ministerial-Level discussions next month, the OECD Ministerial and the GATT Ministerial are all part of this process.

International Trade Problems

Clearance:

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Drafted:

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January 15, 1982