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**SERIES:** II: ECONOMIC SUMMIT FILES

**Folder Title:** France – Issues

(3 of 12)

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*Last Updated: 05/24/2024*

# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** MCMINN, DOUGLAS: FILES

**Withdrawer**

SMF 2/21/2008

**File Folder** FRANCE-ISSUES (3)

**FOIA**

S2007-081

**Box Number** 13

NOUZILLE

174

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
51007	CABLE	251808Z JAN 82 <b>R 4/20/2010 M2007-081</b>	2	1/25/1982	B1
51008	PAPER	DOS BRIEFING PAPER RE POSITIVE ADJUSTMENT POLICIES <b>R 4/20/2010 M2007-081</b>	4	1/8/1982	B1
51009	CABLE	300008Z JAN 82 <b>R 4/20/2010 M2007-081</b>	2	1/30/1982	B1
51010	MEMO	WILLIAM MARTIN TO E. ALLAN WENDT RE IEA MINISTERIAL MEETING <b>R 4/20/2010 M2007-081</b>	2	1/28/1982	B1
51011	AGENDA	IEA MINISTERIAL MEETING AGENDA <b>R 4/20/2010 M2007-081</b>	1	ND	B1
51012	CABLE	031453Z FEB 82 <b>R 4/20/2010 M2007-081</b>	1	2/3/1982	B1
51013	PAPER	DRAFT VERSAILLES SUMMIT-TRADE INITIATIVE <b>R 4/20/2010 M2007-081</b>	5	2/8/1982	B1
51021	PAPER	DRAFT VERSAILLES SUMMIT-TRADE INITIATIVE W/ANNOTATIONS <b>R 4/20/2010 M2007-081</b>	6	2/8/1982	B1

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

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

B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]

B-3 Release would violate a Federal statute [(b)(3) of the FOIA]

B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]

B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]

B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]

B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]

B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

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174

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
51027	PAPER	DRAFT VERSAILLES SUMMIT-TRADE INITIATIVE-INTERNATIONAL INVESTMENT <i>R 4/20/2010 M2007-081</i>	4	2/8/1982	B1
51028	PAPER	RE TRADE AND INVESTMENT RELATIONS <i>R 4/20/2010 M2007-081</i>	2	ND	B1

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

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C. Closed in accordance with restrictions contained in donor's deed of gift.

Henry —

As per our  
telephone conversation,  
here's packet of  
material on Positive  
Adjustment. The draft  
statement is just  
that — a draft.

It needs much more  
work. I've had  
sent to you under  
separate cover

2

1) Cable reflecting  
schedule  
for US-EC  
Ministerial,  
2/9-10

2) Draft scope  
paper / scenario

See you Thursday!  
Sandy

ACTION COPY

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INCOMING TELEGRAM 3

PAGE 01 PARIS 02701 01 OF 02 251823Z ACTION EUR-12

6596 EUR1850

PARIS 02701 01 OF 02 251823Z

6596 EUR1850

PROVIDED A BEACON FOR POLICYMAKERS.

ACTION OFFICE OECD-02 INFO REA-01 RPE-01 /004 A3

--TODAY'S PRESSURES TEND TO DIVERT ATTENTION FROM OUR 1978 COMMITMENT.

INFO OCT-00 ADS-00 AID-07 INR-10 SS-10 OIC-02 CIAE-00 EB-06 EA-10 DODE-00 H-01 IO-15 NEA-06 NSAE-00 SSO-00 L-03 LAB-04 TRSE-00 OPIC-07 CEA-01 OMB-01 STR-13 SIL-01 INRE-00 FRB-03 AGR-01 ICAE-00 SP-02 /117 W

--IMPEDIMENTS TO ADJUSTMENT HAVE RESULTED FROM REGULATORY MEASURES TAKEN IN EXPECTATION OF CONTINUED HIGH GROWTH AND HAVE BEEN EXACERBATED BY DEFENSIVE MEASURES TAKEN DURING RECENT YEARS WHICH HAVE TENDED TO INSULATE ECONOMIES, DISTORT TRADE, AND FURTHER REDUCE MEMBERS' ABILITY TO ADJUST TO COMPETITIVE FORCES.

File France Summit (issues)

0 251808Z JAN 82 FM AMEMBASSY PARIS TO SECSTATE WASHDC IMMEDIATE 0564 INFO USDOC WASHDC PRIORITY WHITE HOUSE PRIORITY ALL OECD CAPITALS

--WHILE A DIFFICULT TASK, IMPEDIMENTS TO ADJUSTMENT MUST BE UNRAVELED. ISSUES TO ADDRESS INCLUDE THE IMPACT ON TRADE, HIGH TECHNOLOGY AND WAYS TO AVOID DISTORTIONS BY GOVERNMENTS, AND IMPEDIMENTS TO LABOR MOBILITY AND HOW TO USE PRODUCTIVITY GAINS TO INCREASE EMPLOYMENT.

LIMITED OFFICIAL USE SECTION 01 OF 02 PARIS 02701

--IT IS IMPORTANT TO USE THE MINISTERIAL TO REINFORCE THE WORK OF THE SPECIAL GROUP AND KEEP THE ISSUE VISIBLE AT A HIGH LEVEL.

USOEC0

PASS WHITE HOUSE FOR CEA PASS USTR

LATER US INTERVENTION (WALDMANN) EMPHASIZED IMPORTANCE OF EXERCISE TO LIBERAL TRADE AND INVESTMENT CLIMATE, NECESSITY OF CONTINUING WORK IN RELEVANT COMMITTEES AFTER SPECIAL GROUP'S MANDATE EXPIRES, CONTINUING ROLE FOR XCSS IN PROVIDING LEADERSHIP AND HEARING PROGRESS, AND DESIRABILITY OF MINISTERIAL STATEMENT WHICH ADDRESSES FINDINGS OF PRESENT EXERCISE AND GIVES ADDITIONAL POLITICAL IMPETUS. THESE POINTS WERE ALSO MADE DURING G6 DINNER, AND US DEL MENTIONED THAT USG WOULD CIRCULATE PRELIMINARY DRAFT FOR MINISTERIAL STATEMENT.

E.O. 12065: N/A TAGS: ECON, ETRD, OECD SUBJECT: OECD EXECUTIVE COMMITTEE IN SPECIAL SESSION, JAN. 21-22, 1982: DISCUSSION ON POSITIVE ADJUSTMENT.

4. DISTORTIONS TO TRADE. DELS FROM SWITZERLAND, JAPAN, BELGIUM, CANADA, ITALY, TURKEY, NORWAY AND CHAIRMAN, IN HIS SUMMARY, EMPHASIZED THEIR AGREEMENT

1. SUMMARY. US PROVIDED KEYNOTE FOR DISCUSSION ON POSITIVE ADJUSTMENT BOTH AT G6 DINNER AND AT XCSS MEETING. BROAD CONSENSUS WAS REGISTERED ON IMPORTANCE OF ISSUE DESPITE POLITICAL AND SOCIAL SENSITIVITIES; FACT THAT OECD WORK HAS CONTRIBUTED TO INCREASED AWARENESS OF ISSUE AND INTERRELATIONSHIPS BETWEEN MICRO, MACRO AND TRADE POLICIES; LINKAGE OF STRUCTURAL ADJUSTMENT TO TRADE AND IMPORTANCE OF REMOVING DISTORTIONS TO THE TRADING SYSTEM; AND NECESSITY FOR RELEVANT OECD COMMITTEES TO CONTINUE WORK PROGRAMS ON POSITIVE ADJUSTMENT. WHILE JAPAN AND SEVERAL SMALL COUNTRIES SUPPORTED US POSITION ON STRONG MINISTERIAL STATEMENT, THERE IS QUESTION ON HOW FAR OTHER MEMBERS WILL BE WILLING TO GO. INSTITUTIONAL FUTURE OF PAP MENTIONED, BUT SOME DELS DID NOT BELIEVE THIS AN APPROPRIATE XCSS ISSUE. END SUMMARY.

2. PLENARY DISCUSSION - GENERAL. SECRETARIAT OUTLINED ACCOMPLISHMENTS OF SPECIAL GROUP ON POSITIVE ADJUSTMENT, HIGHLIGHTING INCREASED AWARENESS OF POLICY MAKERS TO IMPORTANCE OF ISSUE AND TO INTERRELATIONSHIPS BETWEEN MICRO, MACRO AND TRADE POLICIES. BEFORE ITS MANDATE EXPIRES IN JUNE, SPECIAL GROUP WILL PRODUCE SUBSTANTIVE REPORT ANALYZING POLICY OPTIONS, POLITICAL MESSAGE FOR MINISTERIAL UNDERLINING IMPORTANCE OF POSITIVE ADJUSTMENT, AND RECOMMENDATION FOR INSTITUTIONAL FOLLOWUP IN OECD. US DEL (HORMATS) FOLLOWED WITH SUBSTANTIVE STATEMENT WHICH HIGHLIGHTED DISTORTIONS OF GOVERNMENT INTERVENTIONS TO INTERNATIONAL TRADING SYSTEM AND CALLED FOR A REDUCTION OF IMPEDIMENTS TO ADJUSTMENT. STATEMENT PROVIDED REFERENCE POINT FOR REMAINDER OF DISCUSSION. MOST SPEAKERS ASSOCIATED WITH POINTS MADE BY US DEL, AND CHAIRMAN'S SUMMARY INCLUDED ALL ESSENTIAL ELEMENTS.

3. US STATEMENT. MAIN POINTS OF US STATEMENT AS FOLLOWS:

--1978 ORIENTATIONS WERE A MAJOR STEP FORWARD AND

CB action  
The PAP Special Group will meet in Paris  
- March 2-3  
- April 5-6

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ON NARA DATE 4/20/10

ACTION  
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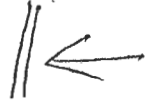
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INCOMING TELEGRAM 4

PAGE 01 PARIS 02701 02 OF 02 251830Z 6614 EUR1858  
ACTION EUR-12

PARIS 02701 02 OF 02 251830Z 6614 EUR1858

DRAFT OF MINISTERIAL STATEMENT BEFORE IT IS CIRCULATED,  
AND, DEPENDING ON ITS CONTENTS, MAY WISH TO MAKE A  
RECOMMENDATION ON HOW IT SHOULD BE SURFACED, I.E.,  
THROUGH SECRETARIAT OR AS US PROPOSAL. KATZ



ACTION OFFICE OECD-02  
INFO REA-01 RPE-01 /004 A3

INFO OCT-00 ADS-00 AID-07 INR-10 SS-10 OIG-02 CIAE-00  
EB-00 EA-10 DODE-00 H-01 IO-15 NEA-06 NSAE-00  
SSO-00 L-03 LAB-04 TRSE-00 OPIC-07 CEA-01 OMB-01  
STR-13 SIL-01 INRE-00 FRB-03 AGR-01 ICAE-00 SP-02  
/117 W

-----025325 251832Z /41

O 251808Z JAN 82  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC IMMEDIATE 0565  
INFO USDOC WASHDC PRIORITY  
WHITE HOUSE PRIORITY  
ALL OECD CAPITALS

LIMITED OFFICIAL USE SECTION 02 OF 02 PARIS 02701

WITH US POSITION ON THIS ISSUE AND ENDORSED FURTHER  
WORK. CANADIAN AND BELGIAN DELS SUGGESTED STUDYING  
COSTS OF PROTECTIONIST POLICIES, AND NORWEGIAN DEL  
EMPHASIZED NEGATIVE CONSEQUENCES OF EXPORT INCENTIVES.

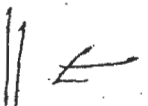
5. OTHER ISSUES FOR FUTURE WORK. UK DEL UNDERLINED  
IMPORTANCE OF FURTHER WORK ON LABOR MOBILITY.  
CHAIRMAN'S SUMMARY MENTIONED TECHNOLOGICAL ISSUE, LABOR  
MOBILITY AND LETHARGY OF INVESTMENT, AS WELL AS IMPACT  
ON TRADE, AS APPROPRIATE ISSUES FOR FUTURE WORK.

6. MINISTERIAL STATEMENT. IN ADDITION TO US,  
SECRETARIAT, SWEDISH, JAPANESE, AND TO LESSER EXTENT  
CANADIAN AND SPANISH DELS NOTED THEIR SUPPORT FOR  
STRONG POLITICAL MESSAGE FROM MINISTERIAL CITING NEED  
TO IMPLEMENT ORIENTATIONS. OTHER DELS SILENT ON THIS  
ISSUE. IN HIS SUMMARY, CHAIRMAN SAID THAT RESULTS OF  
EXERCISE NEED TO BE SERIOUSLY STUDIED AND SUBMITTED TO  
MINISTERIAL, BUT THAT THIS WOULD BE INSUFFICIENT; THERE  
WAS ALSO A NEED TO DRAW CONCLUSIONS AND IMPLEMENT THE  
PRINCIPLES.

7. INSTITUTIONAL FOLLOWUP. BROAD CONSENSUS WAS  
REGISTERED ON NEED TO CONTINUE POSITIVE ADJUSTMENT WORK  
IN RELEVANT COMMITTEES. US FLOATED IDEA BOTH AT G6  
BINNER AND PLENARY THAT XCSS SHOULD MAINTAIN ITS STRONG  
INTEREST IN PAP AND PROVIDE SOME LEADERSHIP. SWEDISH  
DEL AND, MORE INDIRECTLY, SECRETARY GENERAL SUGGESTED  
THAT CONTINUATION OF MANDATE OF SPECIAL GROUP WAS AN  
OPTION MERITING CONSIDERATION. FRG DEL AND CHAIRMAN  
STATED THAT SPECIFICS OF INSTITUTIONAL FOLLOWUP NOT AN  
APPROPRIATE XCSS ISSUE. QUESTION REMAINS UNRESOLVED.

8. OTHER ISSUES. SWISS DEL BROUGHT UP LAGGING  
INVESTMENT AS A KEY ISSUE TO BE STUDIED UNDER POSITIVE  
ADJUSTMENT UMBRELLA. DUTCH DEL SUGGESTED SERVICES  
SECTOR BE STUDIED UNDER PICKING WINNER RUBRIC. FRENCH  
INTERVENTION STRESSED NEED FOR FINAL SUBSTANTIVE REPORT  
TO BE EDUCATIONAL IN NATURE, POSSIBLY INDICATING FUTURE  
RESISTANCE TO A NORMATIVE REPORT AND A STRONG POLITICAL  
STATEMENT. DANISH DEL NOTED AMBIGUITY IN ORIENTATIONS.

9. COMMENT. MISSION AND DELEGATION PLEASED WITH TONE  
AND RESULTS OF DISCUSSION. WHILE MANY ISSUES,  
INCLUDING FOLLOWUP AND POLITICAL STATEMENT, REMAIN  
OPEN, RECOGNITION OF IMPORTANCE OF ISSUE AND SUPPORT  
FOR FURTHER WORK ON POSITIVE ADJUSTMENT, ESPECIALLY IN  
THE TRADE AREA, APPEAR UNANIMOUS. MISSION BELIEVES  
MINISTERIAL POLITICAL STATEMENT WILL BE KEY TO  
SUBSTANCE OF FOLLOWUP WORK. WE WOULD APPRECIATE SEEING



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5

DEPARTMENT OF STATE  
BRIEFING PAPER

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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GDS 01/18/88

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NLRR 007-081 #51008  
BY CL 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 98 PAP meeting: the Special Group's mandate will be allowed to expire in June 982.

-- This does not mean that the organization's work on positive adjustment should end; rather, we favor changing 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 982 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

DATE SENT: 2/1/82 CLASSIFIED MATERIAL  
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FROM: **Edward Marcott** **EUR/RPE/REA 6517 NS** **9**  
(Name) (Office Symbol) (Room No.) (Bldg.)

TO: **Mr. Henry Nau** **NSC Room 392 Old Exec. Off.**  
(Name) (Office Symbol) (Room No.) (Bldg.)

PART V  
DATE RECEIVED \_\_\_\_\_  
IDENTIFICATION \_\_\_\_\_

FORM JF-6  
2-70  
(Formerly DS-406)

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INFO REA-01 RPE-01 /002 A1

TUESDAY, FEBRUARY 9

INFO OCT-00 ADS-00 AID-07 INR-10 EUR-12 CIAE-00 EB-08  
10-15 NSAE-00 COME-00 LAB-04 TRSE-00 CEA-01 OMB-01  
SIL-01 INRE-00 AGRE-00 FRB-03 SP-02 /077.R2

MORNING - CONGRESSIONAL APPOINTMENT FOR EC DELEGATION INCLUDING A BREAKFAST WITH MEMBERS OF THE HOUSE WAYS AND MEANS COMMITTEE, AND MEETINGS WITH MEMBERS OF THE SENATE FINANCE AND FOREIGN RELATIONS COMMITTEES. (FYI: DAVIGNON/CLARK MEETING UNDER CONSIDERATION.)

DRAFTED BY USTR:CKLEIN/DD  
APPROVED BY USTR:RWHEIMLICH  
DOA:RANDERSON  
DOC:FVARGO/GHORLICH  
EUR/RPE:SVOGELGESANG  
USTR:CBLUM/RSIMPSON  
EB/OG/TA:RJOHNSON/SDEMBASKI  
GB/DRF/OPF:MPETERS

PRESS LUNCHEON FOR EC DELEGATION HOSTED BY EC COMMISSION HEAD OF DELEGATION DE KERGORLAY.

WORKING LUNCH FOR U.S. AND EC OFFICIALS AT WOLLHEIM RESIDENCE.

(TIME TO BE ARRANGED) - MEETING OF U.S. AND EC PRINCIPALS AT USTR TO SUM UP RESULTS OF MINISTERIAL MEETING FOLLOWED BY PRESS AVAILABILITY.

4. U.S. SIDE WOULD LIKE FIRST SESSION ON MONDAY TO COVER GENERAL TOPICS OF MUTUAL INTEREST INCLUDING A DISCUSSION OF EVENTS SINCE THE LAST MINISTERIAL MEETING IN DECEMBER. TOPICS WOULD INCLUDE:

-- FOLLOWUP ON THE QUADRILATERAL TALKS AND DISCUSSION OF JAPANESE ACTIONS ON TRADE LIBERALIZATION. ✓

-- REVIEW OF APPROACH TO THE NOVEMBER GATT MINISTERIAL AND ON TRADE ISSUES IN THE CONTEXT OF THE UPCOMING OECD MINISTERIAL AND VERSAILLES SUMMIT. ✓

5. DURING AGRICULTURAL SESSION, U.S. SIDE WILL OPEN WITH A PRESENTATION COVERING U.S. CONCERNS ABOUT EC EXPORT SUBSIDIES AND TRADE EFFECTS, ACCESS TO EC MARKET, AND NEGATIVE IMPACT OF CURRENT CAP SYSTEM ON U.S. FARM ECONOMY. FYI: WE EXPECT THE EC TO DISCUSS CAP RESTRUCTURING. END FYI. WE WILL ALSO WANT TO DISCUSS AGRICULTURAL TRADE IN THE CONTEXT OF THE GATT MINISTERIAL IN NOVEMBER. USDA REPORTS THAT EC REPS HAVE INDICATED AN INTEREST IN EXPLORING U.S. PERSPECTIVES AND POSITION ON VARIOUS SECTION 301 CASES CURRENTLY THE SUBJECT OF CONSULTATIONS UNDER THE SUBSIDIES CODE, AS WELL AS RELATED GATT ISSUES CONCERNING AGRICULTURE. THE USG WOULD NOT CONSIDER IT APPROPRIATE TO DISCUSS ANY OF THE TECHNICAL POINTS OR SPECIFIC FACTORS ASSOCIATED WITH ANY OF THE CASES CURRENTLY BEFORE THE GATT, EITHER IN THE PLENARY MEETINGS OR ON THE MARGINS. PLEASE NOTIFY WASHINGTON ASAP ON OTHER SPECIFIC ISSUES THE EC WISHES U.S. TO DEAL WITH DURING THE TALKS.

6. ON STEEL, THE U.S. WANTS TO ENCOURAGE A FULL EXPLANATION OF EC TIMING AND SIGNIFICANCE OF PENDING EC DECISION ON THE RESTRUCTURING OF THEIR STEEL INDUSTRY. WE WOULD LIKE TO EMPHASIZE THOSE ASPECTS TO THE EC PROGRAM THAT RESPOND TO THE CONCERNS OF THE U.S. STEEL INDUSTRY. SECRETARY BALDRIGE WOULD OPEN WITH A LOW-KEY STATEMENT ON THE SITUATION. WE DO NOT BELIEVE THAT EITHER THE SETTING OR TIMING OF THE FEBRUARY MINISTERIALS IS APPROPRIATE FOR A DETAILED DISCUSSION OF THE STEEL CASE. FYI: SECRETARY BALDRIGE WILL STATE THAT THE CASES WILL BE HANDLED IN FULL CONFORMITY WITH U.S. LAW AND THE APPLICABLE CODES. WE WOULD URGE THE COMMUNITY TO TAKE THE SAME APPROACH, I.E., THAT THESE CASES SHOULD BE TREATED BY BOTH SIDES WITHIN THE RULES SET FORTH IN THE CODES TO WHICH BOTH SIDES HAVE AGREED. END FYI. WE WOULD URGE THE COMMISSION TO BE AS FORTHCOMING AS POSSIBLE CONCERNING THE EC STEEL RESTRUCTURING PROGRAM, SINCE THE MINISTERIAL MEETING WILL PROVIDE THEM WITH THE BEST POSSIBLE ACCESS TO U.S. POLICY-MAKERS ON THE SUBJECT.

*[Handwritten initials and scribbles]*

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O 300008Z JAN 82 ZEX  
FM SECSTATE WASHDC  
TO AMEMBASSY BRUSSELS IMMEDIATE  
INFO USMISSION GENEVA IMMEDIATE  
EC COLLECTIVE

CONFIDENTIAL STATE 025208

BRUSSELS PASS USEC, GENEVA FOR USTR

E.O. 12065 GDR:1-29-88

TAGS: ETRD, EIND, EAGR, EEC, US, OVIP

SUBJECT: U.S./EC MINISTERIAL MEETING, FEBRUARY 8-9

REFS: (A) STATE 05567, (B) GENEVA 1028

1. CONFIDENTIAL - ENTIRE TEXT.

2. U.S.-EC MINISTERIAL CONSULTATIONS WILL BE HELD FEBRUARY 8 AND 9. WE WOULD PREFER THAT ALL SESSIONS BE PLENARIES AND THAT THE AGENDA BE LIMITED TO A GENERAL OVERVIEW OF RECENT AND ANTICIPATED DEVELOPMENTS AND DISCUSSIONS CONCERNING AGRICULTURE AND STEEL. WE SHARE THE HOPES (EXPRESSED REF A) OF EC WASHINGTON DEL WOLLHEIM THAT AN INFORMAL ATMOSPHERE CAN BE MAINTAINED AND THAT A CANDID-EXCHANGE OF VIEWS WILL RESULT. WE INTEND, THEREFORE, TO HOLD THE NUMBER OF PARTICIPANTS TO AN ABSOLUTE MAXIMUM OF 15 FROM EACH SIDE. EC DELEGATION LISTED IN REF B DIFFERS FROM ONE IN REF A AND FROM OTHERS THAT HAVE BEEN SUGGESTED BY EC WASHINGTON DEL. WE WOULD APPRECIATE RECEIVING CABLE FROM BRUSSELS CONTAINING EC DELEGATION LIST AND LIST OF SPECIFIC TOPICS THE COMMISSION INTENDS TO RAISE DURING THE DISCUSSIONS ASAP.

3. WE UNDERSTAND THAT HAFERKAMP AND DAVIGNON MUST RETURN TO BRUSSELS THE AFTERNOON OF TUESDAY, FEBRUARY 9. FOLLOWING IS OUR PROPOSED SCHEDULE FOR THE MEETINGS TAKING INTO ACCOUNT INFORMATION COMMUNICATIONS FROM THE EC SIDE ON OTHER APPOINTMENTS AND PLANNED EVENTS.

MONDAY, FEBRUARY 8

9:15 AM - MEETING OF U.S. DELEGATION AT USTR.  
10:00 AM - 12:00 PM -- OPENING SESSION AT USTR.  
12:30 PM - 2:15 PM -- WORKING LUNCHEON AT DEPARTMENT OF STATE HOSTED BY ACTING SECRETARY OF STATE STOESEL.  
2:30 PM - 4:00 PM -- PLENARY SESSION ON AGRICULTURE AT USTR.  
4:15 PM - 5:30 PM -- PLENARY SESSION ON STEEL AT USTR. SOCIAL DINNER HOSTED BY THE BELGIAN AMBASSADOR (SPOUSES INVITED). PROVISION FOR SUBSTANTIVE DISCUSSIONS ON MARGINS

CONFIDENTIAL

DECLASSIFIED

NLRR 007-081 #51009

BY GN NARA DATE 4/20/10

# Department of State

TELEGRAM 11

PAGE 02 OF 02 STATE 025208

0163 EUR7961

7. ACTION REQUESTED: PLEASE DISCUSS PROPOSED U.S. SCHEDULE AND AREAS OF INTEREST (PARAS. 2-6 THIS CABLE) WITH APPROPRIATE EC REPS PRIOR TO TUESDAY, FEBRUARY 2, MEETING OF EC PRINCIPALS' CHEFS DE CABINET, AND REPORT ASAP EC RESPONSE. ALSO, WASHINGTON WOULD LIKE TO RECEIVE USEC SUGGESTIONS FOR MEETINGS AND COMMENTS ON SUBSTANCE AND PROCEDURAL QUESTIONS AS THEY DEVELOP. HAIG

~~CONFIDENTIAL~~

4th Draft of PAP Statement  
to be used at OECD Ministerial

January 28, 1982

Positive Adjustment Political Statement

1. We recall the mandate of the High Level Group, developed in a period of general economic slowdown, rising unemployment, and mounting protectionist pressures, which was to review the macroeconomic consequences of policy measures to promote structural adjustment. This review has, as noted in our report, taken place in a variety of ways over the past two years, including discussions of individual country experiences, the review of crosscutting issues such as transparency or government support to promising industries, and studies of particular sectors and policy instruments such as steel, textiles, regional policy, etc. Wherever possible, attempts have been made to relate our review to the "General Orientations" which began this exercise in 1978.

2. We note with concern that, despite the orientations, the general decline in the macroeconomic situation has continued, causing further distortions throughout the international economic system and resulting in backsliding with respect to the orientations. Moreover, protectionist pressures are once again mounting, causing increased distortions in the use of resources and resulting in increasing inefficiencies.

3. Our discussions have revealed that in many cases, policies designed to facilitate structural adjustment have, in fact, hindered the achievement of that goal. Increasingly, market failure is no longer perceived as the only legitimate rationale for government interventions. Rather, sophisticated mechanisms have been developed to protect politically sensitive sectors of many of our economies, measures which have proven to be costly inefficiencies which, once enacted, are difficult to amend. Moreover, our findings have revealed a number of sectors where in the 1980s we may be tempted to enact additional programs and policies which will result in further distortions of our open international trade and investment environment.

4. We are alarmed by these trends in the world economy, and wish to point out, not only to the citizens of OECD countries, but to the world, that a serious threat to future economic growth and stability will arise if we do not now check the growth of these negative trends.

5. There are a number of steps which can be taken, both by individual countries and by international bodies, such as the OECD. To begin, we affirm our support for the General Orientations first made in 1978. We also affirm our belief that adjustment should rely as far as possible on market forces to encourage mobility of labor and capital to their most productive uses.



6. Within the OECD, we propose that a number of additional steps be taken: First, that the work on studying adjustment issues continue by charging all committees within the organization to undertake an analysis of the adjustment effects of the economic policy issues within their purview. Second, that we empower the Executive Committee in Special Session to coordinate a continuing program of work on Positive Adjustment; and third, that the Secretary General be directed with issuing an [annual] adjustment report highlighting the findings of individual committees' work and analyzing progress towards or movement away from positive adjustment principles.

7. To aid this process, we propose that a notification system be developed by the Industry Committee, so that when major adjustment policies are implemented by member governments, a system of rigorous review be undertaken by that Committee to ensure that all costs and benefits associated with such actions are rendered more transparent.

8. We also direct that through this work, the Organization move toward the development of a code or set of principles which would provide more direct guidance to member nations in implementing adjustment policies which would minimize the trade distortions and international frictions which might otherwise result from such measures.

9. We note, however, that adjustment issues must be raised in a broader context than just the OECD; effective action needs to be taken by a group with wider membership. Accordingly, we call on the GATT to expand its mandate to take into account the effects of domestic adjustment policies on the international flow of goods and services, and to consider the linkages between domestic adjustment measures and distortions to international trade. Additionally, we note that all facets of international investment issues are not now discussed in a global forum such as the GATT. Given that such investment actions can in fact contribute to adjustment problems as well as cause additional distortions to trade, we call upon the GATT to expand further its horizon to include the resolution of these international investment issues as well.

SENATOR MACK MATTINGLY  
OPENING STATEMENT  
ANNUAL HEARINGS ON THE ECONOMIC OUTLOOK  
BEFORE THE JOINT ECONOMIC COMMITTEE  
JANUARY 26, 1982

*File 16  
Finance  
Summit  
(Issues)*

It is a pleasure, as always, to see you, Chairman Volcker. I welcome you to our annual hearings on the Economic Outlook. Your appearance is especially timely because recent monetary developments are, to say the least, puzzling, troubling and disappointing.

I am sure that you know that I am referring to the incredible jump in the conventionally defined money stock, M1, since last November, and the increases in most interest rates that followed quickly, beginning in December. It would appear that Volckerism has become synonymous with erratic and inconsistent money supply.

I hope you will explain why you allowed these changes to take place. Surely, you at least could have prevented the jump in M1 growth. You could have done so by reducing the supply of reserves to the banking system by however much was necessary. If withdrawing \$1 billion in reserves would not have done the job, you could have withdrawn \$2 billion, or \$3 billion or whatever amount was necessary. In fact, you supplied new reserves to validate the new money growth. I know withholding reserves would have raised the Federal funds rate during the late November-early January period, but keeping it in the 12 to 13 percent range during that period did not keep other interest rates from rising, and indeed now the Federal funds rate has to rise and it is rising.

What constructive purposes were served by your policy actions -- keeping the Federal funds rate relatively constant and letting M1 growth soar -- in recent months?

More broadly, what constructive purposes are served by volatile M1 growth? What's been the good of letting M1 grow 7.8 percent per year from 1977 to 1980, dropping it below zero in the January to April 1980 period, accelerating it to nearly 11 percent from April 1980 to April 1981, the highest 12-month rate since World War II (and at an even higher annual rate -- 13.3 percent from January to April 1981), then stopping it all together from April until October 1981. And, then increasing it once more to over 20 percent per year beginning last November. What have you been trying to accomplish?

Whatever your motives, what rollercoaster money growth around high average growth has helped to achieve is this:

One, you achieved the preservation of high inflation, high inflationary expectations and high interest rates. You have reduced money growth from time to time, but you have not kept it down. It must be kept down to stop inflation, dissipate inflationary expectations and permanently reduce interest rates.

Two, you produced or exacerbated recessions, for every now and then you clamped on the brakes, as for example in early 1980 and again between April and October in 1981.

Three, you produced more uncertainty and hence more volatile interest rates and an increasing reluctance by the public to lend for long periods.

Why can't you produce steady sustainable noninflationary money growth? Are your tools not adequate? What new tools do you need that Congress can give you? Are your own procedures adequate? Many economists think they are not. They point out, for example, that M1 growth was much smoother and less inflationary from 1956 to 1967 when you required banks to match reserves against their current deposit liabilities than it has been since 1967 when you allowed reserves to be matched against deposits of two weeks ago.

Chairman Volcker, once again, your appearance is timely. Recent monetary policy, or Volckerism, as I said, has been puzzling, troubling, and disappointing. Perhaps, you can convince me it isn't your fault. However, I would rather be persuaded that your future performance will be understandable, calming and pleasing. I am glad you are here.

E, William F. Martin

2/1/82

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Mr. Henry Nau

NSC Rm. 392 OEOB

(FOR YOUR INFORMATION)

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## MEMORANDUM

A  
To Dr. U. Lantzke/Mr. J.W. Hopkins

De  
From Ryu Yamazaki *RY*

Paris, 11th December 1981

Objet Theme into the Summit

Subject

Référence

*File*  
*France*  
*Summit*  
*(issues)*

1. Energy as a security/strategic issue

(i) Main objectives

- To avoid energy becoming a contentious issue disarranging the Western Alliance in the West-West, East-West and North-South (including OPEC) contexts;
- To seek a balance and not a trade-off between the economic cost/benefits (free market approach) and security cost/benefits (energy security approach) although policies and perceptions of Summit countries may differ.

(ii) Method

- At the Summit level, to have an in-depth exchange of views on this subject to enhance mutual understanding on policies and perceptions;
- At the Personal Representative's level, to identify specific risks and vulnerabilities for the Summit countries vis-à-vis their present and future energy supply structure; also to seek as appropriate any way of coordinating energy policy from this perspective;

(iii) Specific areas

- natural gas (experience of Soviet deal, other developments, etc.)
- Gulf Area stability (domestic situation of Saudi, Soviet intentions, a concerted Western approach (??))
- flexible stock policy
- nuclear (to cope with domestic opposition)
- aid to LDC's for energy development
- interlinkage among the various items above, especially how to cope with multiple crisis or sub-crisis situations.

2. Energy and the Economy

Energy policy as a tool for helping overcome economic difficulties of high political nature (i.e. recession, unemployment, inflation, balance of payments) while contributing to realize a more energy efficient economy despite glut and complacency temptations.

- energy investment by both public and private funds: dual favourable effect in increasing employment in the immediate short-term (especially in the more labour-intensive energy industries such as coal and energy-related infrastructure needs), and, in improving energy efficiency of the whole economy in the mid-term; furthermore energy-related technology industry could also benefit.

However three unfavourable factors must be taken into account: (a) high interest rates, (b) little or no increase in the real price of oil in the near future and (c) limited government role given budgetary constraints and perception of low priority of energy.



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OFFICE OF THE  
UNDER SECRETARY OF STATE  
FOR ECONOMIC AFFAIRS  
WASHINGTON

January 28, 1982

MEMORANDUM

TO: EB/IEP, Mr. E. Allan Wendt  
FROM: E, William F. Martin: *WFM*  
SUBJECT: IEA Ministerial Meeting

It is not too early to think about energy themes the US might promote for the coming IEA Ministerial meeting. While we will undoubtedly want to delay discussion of the Ministerial meeting until the February 26 Governing Board, we cannot ignore the fact that other countries may wish to raise this issue in the informal setting of Dourdan. Thus Thomas and Burns should be prepared for (but not promote) a preliminary discussion at that time. Ulf Lantzke is also eager to hear preliminary US views so that he can better stage manage the 26 February meeting discussion on this issue.

Our objectives should be three-fold:

- turn around the image held by many countries that the US does not take energy seriously;
- emphasize long term energy alternatives (natural gas, coal and nuclear) and the US role in their development; and
- promote the concept of international energy security --- the basis of which is found in the excellent annex of your recent pipeline memo.

In addition, the IEA Ministerial dinner, which is usually held the night before the Ministerial meeting, could be an opportune time to raise the issue of energy in the overall context of East/West relations. Such a topic might catch the interest of the Secretary and encourage his participation.

I would welcome an opportunity to discuss some of these issues with you and others in IEP. My hunch is that it would be useful to have an interagency consensus

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NLRRM07-081 #51010

BY CU NARA TE 4/20/10

~~CONFIDENTIAL~~

-2-

on the broad direction of our strategy by the time Burns and Thomas leave for the Dourdan meeting. Attached are some possible topics for the Ministerial meeting.

Attachment: a/s

cc: Burns  
Ferriter  
Larson

WFM:jvm

~~CONFIDENTIAL~~

IEA Ministerial Meeting Agenda

I. World Energy Outlook

This session could report on the Secretariat's latest assessment of energy prospects to the end of the century calling attention to the dramatic effect of price in lowering demand and in promoting energy alternatives. A Secretariat study -- prepared by the Economics Division, not the SLT -- shows that higher energy prices will bring about major structural changes. Focus could be on what areas would benefit from better government policies including those which would remove market imperfections. This would provide a basis for the next agenda items.

II. Long Term Energy Alternatives

1. Natural Gas prospects and security issues - (The IEA natural gas study provides an excellent analytical background; the Ministerial discussion could focus on what international means might be considered to better secure natural gas importers from supply interruptions. Agreement on possible measures would not be taken at this time, but relevant IEA bodies could be charged with looking into the details of possible options.

2. Coal - (The results of the first major coal review should be brought to Ministers' attention. This would be a good opportunity to report on what is happening in the US, i.e., President's decision to dredge Baltimore port.)

3. Nuclear energy - (Status of nuclear power development in IEA countries; should the IEA establish a high level group on nuclear energy in collaboration with the NEA/OECD?)

III. Short Term Oil Markets

1. Market Outlook - (Short term oil market outlook with particular attention to stock levels -- which could reach low levels if the harsh winter in Europe and North America continues.)

2. Stocks and Stock Policies in a Pre-crisis - (Key issues are level of stocks and use of stocks in a pre-trigger situation. While the US should not agree to a pre-trigger formula for stock management, we should encourage continued discussions, perhaps within the SEQ, on how individual countries might use their stocks in certain pre-crisis situations. In addition, we should use the opportunity to once again stress the need for higher overall oil stock levels, although due to complex legislative problems in member government quick agreement here is unlikely.)

yes!

Ministers' Dinner Discussion: Energy in the context of overall East-West relations.

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NLRR 007-081-51011  
BY CU NARA DATE 4/20/10

Vote Needed by Lower House

## Bonn Cabinet Approves Job-Creation Program

Journal of Commerce Staff

BONN — After weeks of bickering among the government coalition partners and after much confidence-eroding indecision, the Bonn cabinet approved at its Wednesday meeting a middle-run job-creating program designed to fight the nation's unemployment, which reached to 8.2 percent rate at the end of January.

At a news conference following the cabinet's meeting, Chancellor Helmut Schmidt, in a surprise move, announced that will make use of article 86 of the German Basic Law (constitution) and submit the cabinet decision to a vote of confidence in the Bundestag (lower house). This dramatic step is to document that the government coalition is firmly in the saddle and fully capable of dealing with the crucial problems confronting the nation, explained Mr. Schmidt.

There is no question that the chancellor will pass with flying colors this test of strength in the Parliament, in which the coalition parties have a very comfortable majority.

But it is doubtful whether the vote scheduled for Friday will restore the country's badly shaken confidence in the government policies.

The program, for "joint initiatives for employment, growth and stability" (itself a package of stimulants adding up to some 12.5 billion for the 1982-1985 period), is being seriously questioned as to its economic effectiveness.

Mr. Schmidt called it a "well-balanced compromise package" meant to complement the private and public investment promoting measures in the 1982 federal budget and said to be worth DM27.5 billion in the next four years. The German business and banking community, the Christian Democratic opposition and most German private economists view it as surrender to the pressure of trade unions. In the final analysis, Mr. Schmidt and Otto Lambsdorff, his economics minister, have conjured a program against their better judgment as economists and useless in its purported impact, say the critics.

The heart of the program is a 10 percent subsidy on additional investment undertaken by German companies between Jan. 1. and Dec. 31, 1982 and completed by the end of 1983 or 1984 in case of building construction. The subsidy will be financed through an increase in value added tax from 13 percent now to 14 percent effective July 1, 1983.

This measure is estimated to produce DM4 billion in tax revenues in 1983 and DM8 billion annually in succeeding years. To compensate for an additional burden of indirect taxes the income tax rates will be appropriately lowered effective Jan. 1, 1984 which by coincidence is the year of the next national election. The implementation of this measure could pose serious complications because of its "additional investment clause."

In the government program capital spending eligible for the subsidy is defined as the increment over the average investment outlays in the previous three years. This obviously will tend to penalize those German companies which have kept their capital spending at a high level in the 1979-1981 period. In order to promote private and public investment projects the credit programs by the European Recovery Fund and Kreditanstalt fuer Wiederaufbau (known as UFW) will be augmented by some DM6 billion. The loans will be made available primarily to small- and medium-sized companies and to local authorities for environmental protection projects.

The critics view this measure as counter-productive since refinancing through the capital market is bound to retard the fall in interest rates which Mr. Schmidt himself hailed as "the best employment program."

An additional DM800 million will be made available by the government for construction and modernisation of federal buildings. The rules on rentals for privately financed housing will be eased to allow for higher rents and thus greater incentives to builders.

The package is rounded up by

SEE BONN, PAGE 23B

## Bonn Cabinet Approves Job-Creation Program

BONN, FROM 10A

higher-capital spending by the federal post and railways and measures to promote vocational training of young workers. To help financing the program contribution of pensions recipients to health insurance will be introduced on Jan. 1, 1984, or one year earlier than originally planned. In addition, the cabinet has instructed the minister of labor and social affairs to form a special working group to investigate the possibilities of shortening the lives working time.

Mr. Schmidt also appealed to all political bodies, the Bundesbank as well as labor and management, to make their own contribution to the employment program. He called for reasonable wage settlements and a monetary policy that exploits fully the play room of an improved current account picture. But he also emphasized that close international cooperation is necessary to fight the problem of unemployment that is plaguing all industrial nations.

The problems of trade protectionism and high interest rates will be the two key issues on the agenda of the economic summit in Paris scheduled at the beginning of June, said Mr. Schmidt. Economics Minister Otto Lambsdorff granted readily that the employment program will have only marginal impact on the economic growth in 1982. Its middle-range goal is to set the stage for a healthy 3 percent expansion in 1983. But he was confident that the program approved on Wednesday should guarantee that economic targets projected by the government will be actually realized in the upper forecast range.

Those targets as specified in the

annual economic report also approved at the Wednesday's cabinet meeting, put the 1982 real GNP growth at 1 to 1.5 percent. This anticipated growth is based primarily on expectations of a strong export performance. Export of goods and services are projected to reach DM546 billion, 11 percent up from 1981, and a spectacular 35 percent share of the GNP estimated at DM1.55 trillion or only 5 percent better than last year. Reckoned in constant prices exports, including invisibles, are calculated to rise 6.9 percent.

With imports of goods and services projected at DM519 billion, 7.5 and 3.5 percent gain reckoned in current and constant prices respectively, foreign contribution to the gross national product is estimated at DM27 billion or just over 1.5 percent of the GNP. Subsequently, the current account deficit should be reduced to less than DM5 billion or DM12.5 billion less than in 1981. The average annual inflation rate is projected at 5 percent, 1 percentage point down.

This rather favorable picture contrasts sharply with a dramatic deterioration expected on the labor market. The unemployment rate is forecast at 7 percent of employed wage and salary earners throughout the year, 1.5 percentage points higher than last year.

The employment program unveiled on Wednesday will not brighten this gloomy picture. Chancellor Schmidt said that it was impossible to answer the question by how much the number of jobless calculated to average 1.7 million people throughout 1982 will be reduced by his employment program, or how many jobs will be preserved with its help.

# The Reciprocity Boomerang

A dangerous word is falling from too many lips in Congress and the administration. The word is "reciprocity," and it's being spoken of favorably by U.S. Trade Representative William Brock, Commerce Secretary Malcolm Baldrige and powerful legislators such as John Danforth, chairman of the Senate international trade subcommittee. It threatens to convert the mutual gains from our international trading system into mutual loss.

The goal of "reciprocity" is to close off U.S. markets to trading partners, principally Japan, that fail to lower their own barriers to American wares. As a threat, it may prove useful in the administration's commendable "get-tough" efforts to open foreign markets for U.S. agriculture and high-technology products and service industries. But it's a threat that will most likely boomerang, and wreak havoc on our economy as well as the delicate balance of international trade.

For one thing, people in glass houses shouldn't throw stones. Though the U.S. is the most open of all major industrial economies, we have plenty of protectionist policies of our own. Enough, indeed, that if other countries pursued a "reciprocity" policy of the sort being bruted about in Washington, our exporters would have good reason to fear a cutoff of lucrative markets. In fact, the growing protectionist forces in Europe are eagerly embracing the logic of reciprocity when they threaten to restrict imports from the U.S. as tit for the American tat against European steel. Since the U.S. has a whopping trade surplus with the Common Market (\$11 billion last year), a reciprocity policy would be foolishly self-destructive.

It's important to remember that import barriers hurt our economy, by

denying U.S. consumers and producers access to the highest quality and lowest-cost goods available. This is true whether or not foreign markets are open to American goods. As many Japanese government officials recognize, Japanese high-technology industry is being penalized by the reluctance of Nippon Telegraph & Telephone to buy sophisticated products from overseas, just as U.S. manufacturers are put at a competitive disadvantage by American protectionism in steel. A reciprocity policy would raise American prices, lower competition and innovation and cut off our nose to spite our face.

Besides, let's not kid ourselves about trade barriers in Japan. Yes there are many, and yes they should be removed. But Japan's \$18 billion trade surplus with the U.S. in 1981 would not have been greatly reduced if trade between the two countries were completely open. It's hard to imagine that Japanese restrictions on beef, citrus, services and semiconductor and other high-technology imports greatly outweigh the effects of U.S. restrictions on Japanese auto, steel and TV exports as well as our own refusal to sell Japan Alaskan oil.

The biggest danger of reciprocity legislation is that it would put on automatic pilot a weapon that protectionists could use at will. Every country has unfair trade barriers, but through painstaking multilateral negotiations many of them have been lowered. A reciprocity law would undo this delicate balance, by encouraging one country to jack up its barriers any time it was irritated by another. Since there are always irritations in trade policy, it's hard to imagine a surer recipe for trade wars and resulting world depression. That's a kind of reciprocity, but not one that any of us want.

2/1/82

File 27  
France  
Summit  
(Issued)

Modest Proposal Update

In December of 1981 Henry Wallich, Governor of the Federal Reserve Board, and Anthony Solomon, President of the Federal Reserve Bank of New York, spoke to the annual meeting of the American Economic Association. They both said something rather startling, considering who they are. They said, in effect, that the Federal Reserve has great difficulty defining money, counting it and controlling it. They are right. They are right because what the Federal Reserve is trying to identify, count and control is not money -- it is what the French call "quasi-money," or money substitutes. Money substitutes, unlike money as such, can be created at will. More important, they can be, and are, created not only by the government in free societies, but by the private market. Once the last tenuous claim of the U.S. dollar to be real money was cancelled in August of 1971, the Federal Reserve accelerated the creation of money substitutes through the purchase of Treasury debt and the private market did the same through the purchase of both private and public debt (state, local and federal), using for this purpose the certificates, credits and reserves created by the Central Bank. The largest public and the largest private economies in the world thus meshed and created an ever-increasing pyramid of quasi-money; that is, certificates not necessarily attached to anything real, but representing only the "full faith and credit" of an ever-more rapidly decapitalizing economy. As the net worth of the American economy declined, liabilities became an ever-increasing portion of the solvency ratio, and as a result, the portion of the asset side representing

debt increased and the portion representing real productive equipment, machinery, buildings and skills declined. This had many results, including inflation, decrease in productivity, loss of competitiveness and disappearance of the long-term bond market and of the stock market as a financing mechanism. The American economy now lives almost literally on a day-to-day basis, as eventually becomes the case with any profligate spender.

Through all of this, the Federal Reserve maintained the illusion that money substitutes were money (they are not); that they can be defined and identified (they can, but only serially as the market invents them) and that they can be controlled (they cannot, for the same reason, in a free economy). This illusion is in the process of dying. Its funeral oration was pronounced by Messrs. Solomon and Wallich and was orgiastically confirmed during the second week of January, 1982, when the "money" supply (by the narrow definition!) rose by \$9.8 billion dollars, the largest weekly increase in history and larger than the gross domestic product of 77 member countries of the United Nations. The Washington Post wrote: "Top Federal Reserve officials have been puzzling for weeks over the unexpected increases in the money supply during a period when the economy is moving ever deeper into recession." (January 16, 1982) The answer is simple enough -- the divorce between the paper economy and the real economy has become complete.

There is only one solution to the problem, which if not solved will result eventually in the ultimate triumph of the paper economy -- that is, the collapse of the real economy.

That solution is a return to money and the gradual elimination or marginalization of money substitutes. This entails knowing what money is, however, and that is where the "monetarist" prescription breaks down, since the monetarists confuse money with money substitutes. Their prescription is correct, given a correct definition of money. In a true-money economy, however, their prescription is unnecessary because what they want to happen will automatically happen when justified by real events in the economy.

In short, money, as opposed to quasi-money, is a coin or certificate which is or which stands for something real which in turn requires effort to discover (or invent) and produce, and which can be and is exchanged for other real things and therefore is valued ("has value"). Through most of history this has been gold and/or silver, but it can be any commodity or good, the more uniform and easily divisible the better.

*Money substitutes are only claims on goods as such they are backed by real.*

The flaw in commodity money is that it only imperfectly and with considerable time-lag reflects developments in the economy as a whole and is subject to new discoveries and techniques, which although real enough with reference to that commodity may bear little or no relation to the rest of the economy. It, however, is preferable to quasi-money (or its totalitarian alternative) and may be quite adequate for a relatively primitive economic structure.

A large and sophisticated economy need not subject itself to the vagaries of the distribution of deposits of metallic ores or prospective and refining technology. Another mechanism



can be used, which with much breifer lags will mirror much more closely the movements of the real economy. If the Central Bank limits itself to the discounting of notes and bills representing the production, exchange, storage, sale, export, etc. of real goods and services, its certificates will be money, not quasi-money; the quantity thereof will rise or fall with the rise or fall of real economic activity, inflation (and deflation) will be impossible, the long-term bond market and the stock market as a financing mechanism will revive, and productivity and competitiveness will improve.

In fact, this is exactly what the original framers of the Federal Reserve system had in mind -- the reason they set up twelve regional reserve banks rather than a single central bank. These regional banks were to discount commercial, industrial and agricultural paper generated in their area. This is a big country and economic growth is not uniform in the various regions. Those who wrote the legislation would be horrified to know that the backing for the federal reserve notes, intended to be the real economy, eventually became the federal debt.

All that is really required to establish a sane monetary and financial system is to require that the Federal Reserve banks fulfill their original function. To do that, all that basically is required is to pass a law forbidding the Federal Reserve banks to acquire Treasury obligations as assets.

No federal  
defaults?

If this or something like it is not done, what appears to be (but is not) a definitional confusion will render it impossible for this country to rebuild its economy, its technology or its defenses.

Certain foreign central banks, some notably more effective than ours in controlling the money supply, follow a portfolio policy much closer to that which would be prescribed by a "real bills" doctrine. At the very least, we should study their policies and operations and perhaps learn from them.

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E. O. 12065: RDS-4: 02/03/2002 (KATZ, ABRAHAM) OR-M  
TAGS: ENRG, OECD, IEA  
SUBJECT: IEA PREPARATION FOR SUMMIT ENERGY MONITORING  
GROUP MEETING FEBRUARY 25, 1982

1. CONFIDENTIAL - ENTIRE TEXT.

2. ACCORDING TO IEA SECRETARIAT, IEA IS WELL ADVANCED IN PREPARING BASIC PAPER FOR SUMMIT ENERGY MONITORING GROUP MEETING FEBRUARY 25, 1982. (PLEASE PROTECT FOLLOWING INFORMATION). 35 PAGE DOCUMENT WILL REVIEW SUMMIT COUNTRIES (ABOUT 4 PAGES EACH) AND INCLUDE BASIC ENERGY STATISTICAL ANNEX. THE ONLY NON-IEA NEW DATA WILL BE FRENCH BASED ON THEIR REPLY TO THE SLT QUESTIONNAIRE.

3. THE PAPER WILL LOOK AT THREE AREAS FOR EACH COUNTRY: DIRECTIONS OF POLICY AND MAJOR RECENT CHANGES; ENERGY OUTLOOK TO 1990; AND CRITICAL POLICY ISSUES. THE "CRITICAL POLICY ISSUES" FOR IEA SUMMIT COUNTRIES ARE DRAWN FROM THE RECOMMENDATIONS IN THE SLT COUNTRY REPORTS. THE ISSUES FOR THE UNITED STATES ARE EXPECTED TO BE: NATURAL GAS DEREGULATION; ABILITY TO INCREASE COAL EXPORTS SIGNIFICANTLY; ELECTRICITY TARIFF STRUCTURE AND ITS IMPACT ON UTILITY CONSTRUCTION FINANCING; REDUCTION OF LEADTIME FOR NUCLEAR POWER PLANT CONSTRUCTION; EXPLOITATION OF ALASKAN NATURAL GAS PIPELINE, AND PROGRESS IN SYNFUELS AND RENEWABLE TECHNOLOGY. THE FRENCH CRITICAL ISSUES ARE EXPECTED TO BE: ABILITY TO MEET A 50 PERCENT DOMESTIC COAL PRODUCTION TARGET BY 1990; QUESTION OF REALISM OF PROJECTED ENERGY SAVINGS (TARGETTED TO PERMIT SUBSTANTIAL REDUCTION IN NEEDED ENERGY SUPPLY) AND IMPACT ON ENERGY SITUATION IF TARGET OF 5 PERCENT GDP GROWTH BETWEEN 1985 AND 1990 IS UNDERSHOT.


4. PAPER IS NOT YET FINISHED AND REVIEWED AT TOP IN IEA. IF DESIRED, WE COULD DISCREETLY SUGGEST ADDITIONAL QUESTIONS (E. G. GAS SUPPLY) WHICH MAY BE INCLUDED IN FRENCH REVIEW. IEA WILL HAND PAPER ON FEBRUARY 15 TO FRENCH WHO WILL DISTRIBUTE IT TO SUMMIT COUNTRIES. FRENCH FOREIGN MINISTRY DIRECTOR OF ECONOMIC AND FINANCIAL AFFAIRS PAYE WILL CHAIR MONITORING GROUP MEETING. KATZ  
BT

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BY CJ NARA DATE 4/20/10

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2/8/82

*File  
France  
Summit  
(issues)*

- FOR :
- NSC - Mr. Nau 
  - USTR - Mr. Heimlich
  - CEA - Mr. Niskanen
  - State - Ms. Vogelsang
  - EUR
  - Treas. - Mr. Leddy
  - FOR LELAND
  - Com- - Mr. Vargo
  - merce

For your comments and/or concurrence by Noon Tuesday, February 9.



Marshall Casse

632-2811

VERSAILLES SUMMIT - TRADE INITIATIVE

Trade Effects of "Domestic" Policy

Background

Trade liberalization has been a hallmark of post-war economic policy. Successive rounds of multilateral negotiations have lowered trade barriers at national boundaries, especially tariffs, to the point that they impose minimal distortions to trade in goods. Burgeoning world trade made interdependence a meaningful reality -- among developed countries and between developed and truly developing countries.

As trade restraints became themselves constrained, governments were faced with the task of finding other measures which could serve as a buffer between trade and domestic production -- especially when domestic pressures required a slower - or less pronounced - adjustment process than market forces would produce. To the extent that tariffs (and other trade measures) were designed to influence the relative competitiveness of domestic and foreign production, domestic policy measures such as : selective tax relief, direct subsidies to labor, capital or production, price

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supports, controlled capital market, among others, could effectively replace the abandoned "trade policy" measures.

Current trade problems facing the U.S. vis-a-vis Europe, Canada and Japan can largely be attributed to "domestic" policy actions in those trading partners. Steel is a question of subsidies to European producers. Agriculture is a question of EC agricultural policy especially price supports, themselves supported by variable levies and high domestic food prices which effectively reduce the quantity of foodstuffs demanded. Autos may be associated with Japanese capital markets which result in an undervalued yen and low capital costs to producers. With Canada, we are faced with discriminatory aid-to-industry policies which handicap U.S. investors, while also subsidizing Canadian exports.

The OECD draft report on Trade Issues for the 80s recognizes the paramount importance of certain domestic policy measures, especially those with a microeconomic or sectoral focus, on current and future trade problems. On-going OECD work on domestic adjustment policies -- the work program on so-called Positive Adjustment Policies -- has developed extensive factual and analytical information on policies which influence the adjustment process. The PAP-work program has been directed, thus far, toward a

better understanding of the influence of government policy on domestic resource allocation. This focus stems from an historical accident : the OECD started this work on Adjustment Policies in the midst of the Tokyo MTN, in particular at a crucial stage in the negotiation of the Subsidy Code. The OECD was instructed by member governments to steer clear of the trade implication of domestic microeconomic, sectoral, regional, etc. policies lest the MTN be delayed.

#### Proposal for Versailles

1. A two-year work program on "Positive Adjustment Policies" in the OECD is drawing to a close with the 1982 OECD Ministerial. The effort has already produced a research paper on "Transparency" in member country subsidy programs. An analytical report on the work -- drawing together the work of all relevant OECD groups -- is in preparation by the OECD Secretariat. The Special High-Level Group of the Economic Policy Committee is responsible for preparing a "political statement" to be adopted at the OECD Ministerial -- giving new directions to the OECD work on adjustment policies. The U.S. delegation should exert strong leadership in re-directing the Ministerial declaration toward the international trade impact of "domestic" adjustment policies. This effort would include activity in the

EPC Special Group (CEA), the Trade Committee (USTR/State), the XCSS (State) and in the OECD Council (PermReps).

2. The Ministerial Declaration should foreshadow OECD work over the next year or two which could lead to some form of "Code of Conduct" or voluntary "Guidelines" on specific domestic policy measures with demonstrated international trade effects. The difficulty of achieving a meaningful agreement should not be underestimated since the policy measures addressed will raise issues of sovereignty. To make matters more difficult, these same policies are at the heart of recent European efforts to insulate their economies from external forces. Nevertheless, there is precedent in the OECD for such guidelines (Invisible Transactions, Capital Movements, Behavior of Multinational Corporations).

3. While the OECD will constitute the point of action, the Summit Preparatory process will play an important reinforcing role -- both to bring along those countries most suspicious of OECD activities in this area (France, UK) and to lend the prestige of the Summit to the eventual declaration. The Versailles communique could be expected to endorse the OECD work, and acknowledge the need for some basic international discipline on certain types of domestic policy.



4. By using the OECD PAP exercise, we hope to mute the criticism that we are simply trying to renegotiate the GATT Subsidies Code. Eventually, the OECD guidelines may form the basis for a new Code in the GATT.

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ADVANCED TECHNOLOGY ISSUES

The French Government has suggested that one Economic Summit Issue be: "The modern technology revolution and its effects on economic activity and international trade." The United States government supports the French view that advanced technology issues should be discussed at the Summit and the attached paper summarizes our views on substantive issues and direction of such a discussion.

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## ADVANCED TECHNOLOGY ISSUE

The developed and newly industrializing nations of the world are devoting increasing resources to "knowledge -intensive" industries, such as electronics, telecommunications, aviation, fiber optics, robotics, nuclear power generation and biotechnology. Advanced technology industries are themselves an important source of employment and growth; however, the increased productivity in basic industries resulting from the recent application of advances in the micro-electronics sector to information processing and industrial automation may be even more significant for economic growth. Furthermore, advanced technology sectors are seen by virtually all nations as critical to national security as well as economic competitiveness.

The public recognition of the overall importance of the advanced technology industries has directly led to an increased level of government involvement in these industries. In some countries, there are formal, coordinated government efforts designed to promote development in these sectors employing a broad range of policy instruments. This augmented level of government involvement in advanced technology industries in both the developed and newly industrializing nations, combined with an exploding rate of product innovation and the rapidity of market growth could prove a serious threat for the current trading system.

While the GATT, UN, and OECD frameworks address some aspects of the advanced technology issues, some sectors (e.g., information services) and some governmental interventions (e.g. local content and export requirements) have not been adequately covered by international discipline. In fact, the critical factors in the "modern technology revolution" crucial to the continued world development and innovation of advanced technology products and services have not been adequately dealt with in any fora. While international competition increases, there is still opportunity for mutual cooperation to reap the benefits of these advanced technology industries and avoid the destructive aspects of international rivalry.

It is appropriate for advanced technology issues to be discussed at the summit to emphasize the seriousness with which the major developed countries consider the establishment of an appropriate forum for further examination of critical issues. While the United States Government does not at this time propose a specific fora or venue, for advanced technology issues, this to be a subject for further discussion among the Summit preparatory staffs, listed below are some suggested objectives for such an undertaking:

ADVANCED TECHNOLOGY FORUM OBJECTIVES

- o to further economic development;
- o to encourage reduction of barriers to trade;
- o to promote the diffusion of advanced technology, embodied in product, services and the knowledge base;
- o to facilitate mutual cooperation among nations and among companies consistent with the need to preserve an environment of constructive competition;
- o to review the status of international development and competition among advanced sectors;
- o to examine the nature of government involvement in these sectors and the possibility of resultant economic and trade distortions;
- o to enable governments to develop long range outlooks, set up mechanisms and develop principles that avert institutional crises situations related to these sectors;
- o to enable governments to act promptly to cope with crises situations, should they arise, in close cooperation and in consultation with trading partners and accordance with previously agreed principles.

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## VERSAILLES SUMMIT - TRADE INITIATIVE

Trade Effects of "Domestic" PolicyBackground

Trade liberalization has been a hallmark of post-war economic policy. Successive rounds of multilateral negotiations have lowered trade barriers at national boundaries to the point that tariffs impose minimal distortions to trade in goods among industrialized countries. Burgeoning world trade made interdependence a meaningful reality -- among developed countries and between developed and truly developing countries.

As trade restraints became themselves constrained, governments sought other measures which could serve as a buffer between trade and domestic production -- especially when domestic pressures required a slower - or less pronounced - adjustment process than market forces would produce. To the extent that tariffs (and other trade measures) were designed to influence the relative competitiveness of domestic and foreign production, domestic policy measures such as : selective tax relief, direct subsidies to labor, capital or production, price supports, controlled

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capital market<sup>s</sup>, ~~among others~~, effectively replace the abandoned "trade policy" measures.

Current trade problems facing the U.S. vis-a-vis Europe, Canada and Japan can largely be attributed to "domestic" policy actions in those trading partners. Steel problems are a question of subsidies to European producers. Agricultural problems stem from EC agricultural policy, especially price supports, themselves supported by variable levies and high domestic food prices which effectively reduce the quantity of foodstuffs demanded. Some argue that the rapid penetration of Japanese production into U.S. and European automobile markets is associated with Japanese domestic policies relating to capital markets, industrial policy and export strategies, giving Japanese producers unfair cost advantages. Others argue that that <sup>the</sup> "Japanese auto problem" is, in fact, attributable to the failure of U.S. and European industry to adjust to vigorous competition from imports. In either case, the "auto problem" stems from domestic not trade policies. With Canada, we are faced with discriminatory aid-to-industry policies which handicap U.S. investors, while also subsidizing Canadian exports. While the USG has a better record on microeconomic or sectoral interventions in the U.S. economy, we are not totally immune from challenge were our trading partners writing this paper.

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1. A two-year work program on "Positive Adjustment Policies" in the OECD is drawing to a close with the 1982 OECD Ministerial. The effort has already produced a research paper on "Transparency" in member country subsidy programs. An analytical report on the work -- drawing together the work of all relevant OECD groups -- is in preparation by the OECD Secretariat. The Special High-Level Group of the Economic Policy Committee is responsible for preparing a "political statement" to be adopted at the OECD Ministerial -- giving new directions to the OECD work on adjustment policies. The U.S. delegation should exert strong leadership in directing the Ministerial declaration toward the international trade impact of "domestic" adjustment policies. This effort would include activity in the



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3. While the OECD will constitute the point of action, the Summit Preparatory process will play an important reinforcing role -- both to bring along those countries most suspicious of OECD activities in this area (France, UK) and to lend the prestige of the Summit to the eventual Declaration. The Versailles communique could be expected to endorse the OECD work, and acknowledge the need for some basic international discipline on certain types of domestic policy.

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VERSAILLES SUMMIT - TRADE INITIATIVE

International InvestmentBackground

Direct investment and trade flows are closely related. Hence, the effects of investment policy have a close relationship to those of trade policy. Governments can and do employ investment measures for nationalistic, neighbor-beggaring objectives when the rules of the game preclude the use of trade policies to the same ends.

National measures aimed at influencing or controlling foreign investment to a country's advantage at others' expense have become increasingly widespread and worrisome, to the point where the USG's traditionally open policies toward direct investment are under threat. Pressures are building for the United States to abandon its market-oriented policies to retaliate against other governments' actions in both the trade and investment policy fields. Of principal concern to the USG, and most closely related to issues of trade policy, are various forms of government intervention to attract, and then control, foreign investors so that the flows of economic gains from investment are distorted. The distortions invariably tilt the economic benefits, including most notably the trade flows that

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investment generates, in favor of host countries and against investors' home countries. Thus, nationalistic and GATT-proscribed trade objectives are achieved without any apparent violation of GATT rules. Among the most offensive interventionist practices of governments, incentives and disincentives, performance requirements (local content rules, other import substitution requirements, and export quotas), and discriminatory taxation devices rank high. These techniques have proliferated in both developed and developing countries (Canada, the UK, Brazil, and Mexico all provide examples).

Internationally, the investment policy competition has neither rules nor efficient dispute-settlement mechanisms. Except for non-binding OECD guidelines, there are no proscribed actions or sanctions placed on offensive government actions. Interventions in investment decisions have multiplied. As the resulting distortions have pervaded the international economic system, frictions among nations, and protectionist responses, have developed. The lack of rules and consequent sources of disorder are not solely trade-related; issues of investor protection and of regulating MNC activity also come into play, usually as matters of contention between developed and developing countries.

In 1977, a proposal that the USG take the initiative in promoting the formulation of GATT-like rules of the game

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failed for lack of interagency consensus. Now, however, such a consensus exists and the time is ripe for a new effort.

#### Proposed Summit Action

At Versailles, the United States should take the lead in opening a discussion of investment policy regimes as a key trade-related policy issue, and a major opportunity to reverse the advance of protectionism. We should focus on investment incentives and performance requirements because they are most closely related to trade issues, but we should take the opportunity as well to stress all investment policy questions, including issues relating to conditions of entry, investor protection, and MNC activity. We should push for a firm commitment by Heads of State, expressed in the Summit Communique, that their ministers at the GATT Ministerial in November, 1982, will join in a coordinated proposal for a major expansion of the GATT, or a new but related GATT-like mechanism, to cover investment policies, practices and behavior of governments.

#### Supporting and Follow-up Actions

Prior to the Summit in June, it will be necessary to prepare a detailed interagency strategic plan to launch and follow through on the US investment policy initiative.

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Such a plan will both guide the detailed Summit preparations on this issue and provide for consistency in preparation for the GATT Ministerial. At the latter, we would press for agreement to convene a major negotiating conference, under GATT auspices, to create a GATT-like regime for investment. At a minimum, such a regime should provide for (1) agreed rules of investment policy conduct by national governments; (2) dispute-settlement procedures and mechanisms; and (3) safeguard and compensation rules -- all patterned on the existing machinery of the GATT.

Treasury/IT/RA Cornell  
 2/8/82  
 (566-2748)

UNCLASSIFIED MEMO W/CONFIDENTIAL ATTACHMENT

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OFFICE OF THE UNITED STATES  
TRADE REPRESENTATIVE  
EXECUTIVE OFFICE OF THE PRESIDENT  
WASHINGTON  
20506

SENIOR ASSISTANT U.S.  
TRADE REPRESENTATIVE  
FOR BILATERAL AFFAIRS

February 9, 1982

ASSISTANT U.S. TRADE  
REPRESENTATIVE FOR  
JAPAN, EUROPE, AND  
NON-MARKET ECONOMIES

*File  
France  
Summit  
(issues)*

MEMORANDUM TO: Robert Hormats  
Marshall Casse  
Henry Nau  
Mark Leland  
Sandy Vogelgesang

FROM: Richard W. Heimlich *RWH*

Subject: Economic Summit - Versailles

Attached are draft papers on Trade Overview and High  
Technology for our discussions Thursday morning.

Attachments

UNCLASSIFIED MEMO W/CONFIDENTIAL ATTACHMENT

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OF CLASSIFIED ENCLOSURE(S)

*smf 2/22/82*

By June, the durability of trade and investment relations among the Summit Countries will have been severely tested. We are likely to meet either in a relatively upbeat context, based on real progress toward resolving our problems, or in a very strained climate if such progress is not achieved. Over the next four months any of the following areas could cause serious confrontations among Summit participants and there is a real risk that several of the areas may get out of hand at once:

Improved Access to the Japanese Market - a serious concern for all other participants.

Further Sanctions Against the Eastern Bloc - a particularly critical issue between the United States and the Europeans.

Excessive Canadian Economic Nationalism (NEP/FIRA) - a major problem for the United States.

Excessive European Subsidies - the major problem for the United States and Canada is in third country agricultural markets; subsidized export credits and continued subsidies of steel and high technology also are a major U.S. concern.

Spreading European Import Restrictions - risk of difficulty between Europe and Japan in industrial products and Europe and the United States/Canada in agricultural products.

United States Trade Actions - the steel and agriculture cases will cause great consternation in Europe; reciprocity legislation will be a concern to all other participants.

The political management of these issues will be complicated greatly by adverse economic conditions, especially high unemployment in Europe and North America, and weak governments in Europe.

Since we cannot predict at this time how these problems will look at the time of the Summit, our preparations for the Summit should focus on less volatile, longer-term issues and initiatives in the trade and investment areas. In some instances, the Summit could address directly problems of concern primarily to the countries involved, and in others it should spur progress in other areas (e.g., GATT Ministerial). It is suggested that we establish the following as key trade and investment priorities for the Summit:

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- a strong push for assuring that the GATT Ministerial, in November, addresses unresolved and emerging problems in the trading system in a meaningful way. At a minimum the Ministerial should develop approaches with respect to safeguards, agricultural subsidies, services trade, and trade related investment issues.
- devising longer-range objectives and strategies for encouraging development and integration of LDCs into trading system, with special attention to getting NICs to provide improved market access for other LDCs; additional measures to improve our market access to LLDCs (e.g., enhanced GSP, preferential treatment under MFA); and improving investment climate in LDCs.
- establishing a multilateral forum for continuing dialogue on high technology issues including exchange of information on government policies and impact of those policies on others and ways to promote spread of technology to LDCs.

Other possible priorities that deserve consideration include launching an international review of the international trade and investment impacts of

- national tax practices
- the conditions in national capital markets and access of foreign firms to those markets
- national competition policies
- multinational corporations and investment policies

Most of the above topics were selected to emphasize the shift in our trade relations away from the traditional focus on trade in goods and tariff and nontariff barriers to such trade. It is clear that in the next 10-20 years we will have to focus to a much greater extent on other types of trade and trade barriers. This Summit could call attention to these shifts in emphasis, and launch or encourage a series of processes designed to adopt the multilateral framework accordingly.

We will need also to consider whether a more traditional affirmation of joint commitment to the multilateral trading system should be prepared for the Summit. Given present uncertainties, it is premature to make that decision--we must await further developments in next couple of months.

## ADVANCED TECHNOLOGY ISSUES

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