

Ronald Reagan Presidential Library
Digital Library Collections

This is a PDF of a folder from our textual collections.

Collection: McMinn, Douglas W.: Files, 1982-1985

SERIES: II: ECONOMIC SUMMIT FILES

Folder Title: France – Issues

(5 of 12)

Box: RAC Box 13

To see more digitized collections visit:

<https://www.reaganlibrary.gov/archives/digitized-textual-material>

To see all Ronald Reagan Presidential Library Inventories, visit:

<https://www.reaganlibrary.gov/archives/white-house-inventories>

Contact a reference archivist at: **reagan.library@nara.gov**

Citation Guidelines: <https://reaganlibrary.gov/archives/research-support/citation-guide>

National Archives Catalogue: <https://catalog.archives.gov/>

Last Updated: 05/24/2024

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name MCMINN, DOUGLAS: FILES

Withdrawer

SMF 2/21/2008

File Folder FRANCE-ISSUES (5)

FOIA

S2007-081

Box Number 13

NOUZILLE

176

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
51082	PAPER	GLOBAL CONFERENCE ON ECONOMIC GROWTH AND DEVELOPMENT <i>R 5/24/2010 NLRRM2007-081</i>	13	ND	B1
51084	MEMO	BEN ZYCHER TO WEIDENBAUM/NISKANEN DOCUMENT PENDING REVIEW IN ACCORDANCE WITH E.O. 13233 <i>open 3/11/10 KMU</i>	4	3/3/1982	
51074	CABLE	052028Z MAR 82 <i>R 4/20/2010 M2007-081</i>	8	3/5/1982	B1
51079	CABLE	052049Z MAR 82 <i>R 4/20/2010 M2007-081</i>	9	3/5/1982	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.

Global Conference on Economic Growth and Development: A
Discussion paper

1
File
France
Summit
(issues)

Introduction/Overview

The idea of a Global Conference on Economic Growth and Development (G, Conf,) has emerged in the context of USG internal preparations on developing country issues to be addressd at the Versailles Summit. The G, Conf idea has appeared before in USG internal discussions regarding possible initiatives targeted toward developing countries. A draft version of Secretary Haig's speech to the United Nations General Assembly (September 1981) contained a proposal for an Global Conference on Growth, but it was deleted in the final version. Haig's speech, however, did refer to building "a new strategy for growth." The President's speech to the World Affairs Council of Philadelphia also referred to chartering a "strategic course of a new era of international economic growth and development," and enumerated U.S. economic principles that "can lead to the cooperative strategy for global growth we seek."

In December 1981, Secretary Haig sent a memorandum to the President which mentioned the idea of a "UN Conference on Global Growth and Development in 1983". Proposing this conference would be used to attempt to preempt an undesirable form of Global Negotiations (GN), while preserving the "Spirit of Cancun" and meeting the President's four essential understandings on "circumstances that would offer the prospect of meaningful progress" in international discussions. According to Secretary Haig's idea, the U.N. Conference would be preceded by four planning conferences in 1982 covering the subjects areas of

DECLASSIFIED/22/04510

NLRR 107-081 #51082

BY AL NARA DATE 5/24/11

Cancun: food and agriculture; energy; trade and commodities; and money and finance. Ambassador Kirkpatrick, in a separate memorandum to the President, stated her view that "we should not propose or encourage such a conference -- at least at this stage."

The purpose of this paper is to lay out for discussion (a) the possible rationale for a G Con. based upon U.S. objectives (tactical and/or substantive) which could be served by a properly structured and managed conference; (b) tactical considerations regarding locus for presenting/generating a proposal for a G Con and probable receptivity of other countries; (c) the internationally agreed purposes of the conference, an ideal agenda, organization, operation; and (d) potential pitfalls of a G Con and the methods and prospects for successfully avoiding them.

A. Rationale for G, Conf.; U.S. Objectives (Tactical and/or Substantive)

A G Con at this time could "make sense" for several reasons. First, the conference would be a logical extension of the quest for a "cooperative strategy for global growth" cited by the President. The conference would be a natural follow-up to the Cancun Summit. The conference also would serve to keep up the appearance of continuing last year's high-level activity/concern in the area of economic growth and development (starting with the OECD Ministerial, running through the Ottawa Summit,

UNGA Opening Session, IMF/IBRD Annual Meetings, and culminating with the (Cancun Summit). Finally, the conference could present a forum to highlight various initiatives that are being explored by countries, either nationally or internationally (e.g., trade investment, co-financing, food, etc.), and show how these activities, taken together, will help promote economic growth and development.

U.S. objectives, substantive and tactical, for a G Con would be primarily foreign policy ones, and could include: (1) maintaining/promoting the positive momentum the United States derived from Cancun regarding our relations with developing countries, which, now after five months, some might suggest is flagging; (2) diverting attention from perceived U.S. fixation on East-West/strategic considerations and reasserting U.S. interest in economic development problems (this was the strategy of Haig's UNGA speech last September); (3) reaffirming a United States leadership role on international economic issues and demonstrating United States continuing interest in problems of economic development; (4) drawing attention away from United Nations debates on GN and/or having in place an alternative to an unacceptable GN process which we may pressured to accept; (5) highlighting the rationale for U.S. economic policies and demonstrating sensitivity to the effect of domestic policies on the global economy; and/or (6) emphasizing that appropriate domestic policies are the key to economic growth and development.

As noted, these objectives are not necessarily mutually exclusive (that is, a G Con need not be proposed only to seek to avoid an unacceptable GN). Also, these objectives (as drafted) are a combination of ^{specific} defensive tactical goals, and more general foreign policy/economic policy goals for

Focus attention on not ppls. do make aid

on the... professional... industry

LDC. and... violating... radical... taking... game of...

showing... has...

~~creating economic~~ ^{international} positive atmosphere (at least), if not clearing up some popular misconceptions of U.S. policy. A G Con must necessarily only serve these more general objectives since the Administration, for policy and technical reasons, has been pursuing its specific policy approaches and possible new initiatives within appropriate existing specialized international agencies.

Perhaps
 simply
 need to
 relate
 trade & dev.
 i.e. GATT &
 M.

This latter point naturally raises the question of what a G Con would accomplish that is not already being done or could be done within existing mechanisms. For example, the series of high-level meetings which last year provided a forum for this Administration to present and argue its views on economic relations with developing countries occur again, starting in May (IBRD/IMF Development Committee (May), OECD Ministerial (May), Versailles Summit (June), and Bank/Fund Annual Meeting (September)). In addition, other extraordinary international conferences will take place on trade (GATT Ministerial-November) (Italy, Ottawa Summit follow-up), food, and energy (follow-up to New and Renewables Conference). Preparations are also underway to set the agenda for the UN Conference on Trade and Development's (UNCTAD) Sixth Meeting, scheduled for Gabon in 1983. (Before the notion of GN, UNCTAD's quadrennial conferences were the primary high-level "North/South" negotiating conference.) The United States has been actively pursuing economic policies and initiatives consonant with the President's development philosophy in these organizations as well as ^{unilaterally} ~~nationally~~ (see attached listing) ^{prepared by State}.

in D
 on
 Public
 sets

Another question a G Con proposal raises is relationship and interplay between the G Con and existing international agencies and their activities. For purposes of this paper, a G Con is assumed

to be an extraordinary event with no direct linkages to the operatives^{ors} of established international organizations. Nonetheless, an "activist" G Con could ~~indicate~~^{negatively} detract from the on-going work of existing agencies, especially if developing countries perceive (incorrectly) that any policy pronouncements emerging from the conference could influence these on-going activities. U.S. active encouragement for conducting international economic discussions via extraordinary channels (e.g., a G Con) could ^{also} serve to strengthen^{en} developing countries' resolve to pursue the tactic themselves, e.g., via GN or an equivalent.

be
Show
purpose
only
C.V.

Besides this potential for disruption, there is also the possibility of a "backlash" effect on international institutions. The United States has endorsed certain unpopular policies and analyses of the Bank (e.g., strict performance requirements in structural adjustment lending andⁱⁿ the IBRD's study on Sub-Saharan Africa) and^{of} the Fund (conditionality). To the extent that these institutions are ~~now~~ closely associated (at the political as opposed to the technical level) with implementation of U.S. policies, there could be negative repercussions on these institutions from developing country members, thus possibly making their policy dialogue with developing countries less effective or more difficult. (One of the conclusions of Treasury's MDB Evaluation was that ~~the~~^{the} major strength of multilateral institutions was in^{the} exerting economic policy leverage^X to persuade countries to adopt appropriate economic policies, leverage that the U.S.^{ted} (or any other ~~individual~~ country) does not possess^{individually}. The IBRD already has been subject to criticism[!] by African nations on its Sub-Saharan African study, which some view as a "blueprint" of the U.S. Administration's approach

✓
|

to economic development (e.g., rational trade and exchange rate regimes, price/market mechanisms to stimulate agricultural production, reduced intervention by government).

With respect to the defensive tactical objectives, a proposed G Con is unlikely to be regarded with favor as an alternative to GN. As conceived in this paper (see below), a G Con would be a discussion forum, not a negotiating one ^{mak} ~~market~~ing recommendations to specialized agencies. A G Con, however, could be fashioned to be a more palatable alternative to GN. This type of conference would then run the risk of being regarded as the "first stage" of GN -- but assuming another name.

*Con
influence
to be
a*

Finally, using a G Con as a follow-up to Cancun makes the assumption that the G Con could be as well-managed and "productive" as the Cancun Summit. That Summit had little ^{formal} ~~substantive~~ preparation and advanced documentation, occurred in the relatively early days of the Administration's deep involvement in developing its international economic policies, and was at the Heads of State level, ^{with the U.S.} emphasizing the bilateral aspects. Replicating these conditions would be impossible, if for no other reason than ^{this} Administration's views and performance on development and trade have become more defined and well-known (MDB Assessment, GN, Caribbean Basin Initiative, MFA renewal, etc.). Would this have a postive effect on achieving successful (in U.S. terms) G Con?

B. Tactical Considerations/International Receptivity

Renewed discussion on a G Conf have occured in the context of preparations for the Versailles Summit. If a G Con were ^{considered} worthwhile, the tactical question arises as to where the proposal for such a conference should be made which would offer the \longrightarrow

best prospects for international acceptance. Implicit in the following discussion is the assumption that if the G Con were proposed by the United States, many countries would resist/oppose on principle (if for no other reason). Therefore, the proposal should be made by another country perceived as favorable to LDC interests (e.g., Canada) or "emerge" from international discussions.

Versailles Summit: The communique could call for a G Con. This would give G Con high political profile and round out the Summit communique on "North/South" issues with a positive action plan. The G Con could be proposed as "free-standing," unique meeting with limited participation (a la Cancun) or plugged into an international organization. On the other hand, Summit participants' commitment to an untested idea risks being rejected by developing countries (who likely would regard the idea with some suspicion) and is contrary to the notion of keeping Summit communiques less action-oriented than in the past.

Global Negotiations: If New York discussions on GN languish, or if they pick steam, but in an unacceptable direction, the G Con could be posed as an alternative to GN. This could place the United States in a positive position of presenting serious alternatives to pursue a global dialogue consistent with the President's statements at Cancun. As noted above, developing countries are unlikely to regard a G Con as a viable alternative to GN; or, if the G Con were fashioned to resemble a GN process (e.g., conferences covering sectoral issues reporting to a central conference), then similar procedural ~~considered~~ problems as with GN are likely to arise.

IMF/IBRD Development Committee (DC): The DC could recommend that the Bank/Fund sponsor a G Con and undertake itself ~~to perform~~ the preparations (i.e., agenda, organization, etc.). The DC has a limited membership with a balance of industrialized, oil-exporting, and developing country representation which could facilitate G Con preparations while portraying the G Con as being representative of all interests. The DC's review of the IBRD's Sub Saharan African Study could serve as the vehicle for proposing a general conference on growth. The DC's mandate, however, covers only "transfer of real resources" to developing countries; ~~and~~ ^{it} has not been perceived as an activist, productive, or responsive (to developing countries' interests) "North/South" forum.

United Nations: The General Assembly could call for a conference and have it take place in conjunction with the interim review of the International Development Strategy (IDS) for the 1980's (UN General Assembly review scheduled for 1984, with preparatory work likely in 1983). IDS preparations will entail contributions from regional UN commissions and other international development agencies. Using the UN, however, is likely to lead to a greater polit^{ic}ization of the G Con than otherwise, and engage discussions on a less substantive plane.

C. Nature of Conference: Purpose, Agenda, Organization, and Operations

An acceptable G Con could take various forms to achieve U.S. national objectives. For discussion purposes, the paper makes the following assumptions about such a conference: (a) it is basically economic in nature (although the objectives it serves

are primarily foreign policy); (b) participation should be limited to some degree, at least avoiding communist bloc country participation; (c) the conference should be primarily an information exchange (rather than negotiations) and should have factual documentation on economic issues as background; (d) it should avoid, as much as possible, institutional policy issues (e.g., IMF reform) or issues which are part of an institution's operational work program (as opposed to just being discussed); (e) the conference should avoid a North versus South ^{orientation} ~~presentation~~; and (f) it ^{should} reflect the U.S. economic principles as presented by the President (trade, investment, assistance ⁱⁿ self-sustaining food and energy production, tailored development strategies to individual countries). Based upon these assumptions, the following is a sample of the purpose, agenda, organization, and operation of a G Con:

Purpose of Conference

The internationally agreed purpose of the conference could be to:

- promote shared understanding of world economic outlook;
- explain national policies designed/in place to generate growth;
- ^Sstress the key role of appropriate domestic policies for promoting economic growth and development;
- underscore the importance of trade, investment, and private financial flows for economic growth and the contributions of official development assistance, particularly for low-income countries;

- highlight importance of mobilizing domestic resources for growth; and
- ^{provide for} informal consultations among economic officials on issues of bilateral interest.

Agenda

The agenda would be constituted primarily of economic topics designed to permit a wide ranging exchange of views. The agenda would be designed to avoid broad sectoral subjects (e.g., trade, energy, food) which are likely to be associated with previous ~~repor~~tical "North/South" conferences. Recognizing that such an agenda would be subject to international debate before it is finally adopted, an initial agenda might include the following:

- Prospects for World Economy
- National Policies
 - Anti-inflationary objectives, (e.g., including monetary, fiscal and regulatory policies)
 - Promotion of investment/savings (especially in ~~emerged~~ ^{emerging} food areas)
 - Role of Government in Economic Mangement
 - Promotion of Productivity ^{management of budget}
- International Policies
 - BOP Financing
 - Exchange Rates
 - Trade Regimes
 - Foreign Investment
 - External Financial Flows
- Relationship of National and International Policies
 - ^{Foreign} International Debt
 - Adjustment
 - Domestic Constraints
 - Terms of Trade
 - Worker Immigration

Organization of the Conference

Secretariat support for the conference, country membership, representation, preparation of background documentation, and organization can have an ~~one~~ important influence on the nature of the G Con. A possible combination ^{would be} ~~is~~ the following:

Secretariat Support: Documentation/support by staffs of IMF and IBRD;

Country Representation: Invitees would be the members of IMF and IBRD.

Representation: Finance/Economic Ministry representatives invited as principal spokesman (with Foreign and Development Ministry participation). ^{Don} ^{Asia} ^{to}

Statistical Background: Document preparation using global statistics and regional and/or "eight poles" breakout (~~the "eight poles"~~) identified by IBRD President Clausen (^{VE} ~~EA~~, Western Europe; North America; Japan; Eastern Europe; capital surplus oil-exporting; newly industrialized; populous centers in Asia; and poverty-stricken Sub-Saharan Africa countries).

Organization: Working Groups (chaired by IMF or IBRD officials) reporting to plenary conference chaired by World Bank President or IMF Managing Director (depending upon DC Chairmanship for that year).

Operation

Reports of Working Groups would be oral and on responsibility of Chairman (i.e., not agreed); the plenary conference would present a final communique would be issued on the responsibility of the Chairman and reporting on the conference discussions.

D. Pitfalls for the United States/Avoidance Techniques

Even in the best of times, convoking an international conference is fraught with potential hazards, not the least of which is public rejection of an invitation to attend. Assuming that the initial hurdles of having the conference idea adopted are surmounted, there are some potentially severe pitfalls ~~into which the U.S. could fall~~ with the G Con ~~being~~ ^{developing into an event which is} contrary to our interests. Of course, there can never be a certainty that any international conference will be "successful" for achieving our national objectives. However, there are pitfalls peculiar to this particular exercise at this time, including the following:

(A) Conference might be utilized as first phase of Global

Negotiations. The structure and agenda of the conference would be formulated with a view to avoid in this specifically by (a) not having the conference under UN auspices; (b) Finance Ministry representatives as principal spokesman; (c) structuring discussion on regional/country groups, not sector topics; (d) final communique a factual report and not an action agenda for follow-up.

*low a
also influence
family love*

(B) Debates on institutional reforms (e.g., in IMF, IBRD)

would break out. The agenda could be used to attempt to avoid this by designating economic issues without direct references to the involvement of the specialized international agencies in policies discussions (easy to say, harder to implement).

(C) Recommendations contrary to U.S. policy and U.S. interests (e.g., increases in concessional aid) will be stressed.

Keeping conference focused on information/idea exchange may mitigate this, but a heavy dose will be inevitable.

(D) Attacks on U.S. "policies" (e.g., high interest rates, trade protectionism, reduced contributions to MDBs)

will get prominence. We can attempt to avoid this by pointing to long-term objectives, need to make best use of scarce resources, and the need for others not to close-up the international trade and financial system. In an atmosphere of continued economic stagnation in the major economies, such attacks are likely to be particularly vicious.

International Cooperation and Development:
Recent U.S. Actions

At the Cancun Summit in October 1981, President Reagan offered a positive program of action for development concentrated around five principles. Outlined below are some of the actions the United States has taken to implement each of these principles.

1. Stimulating international trade by opening up markets, both within individual countries and among countries.

Our current efforts to carry out the US commitment to an open international trading system are focusing on the ministerial meeting of the GATT next November. We are holding consultations with several developing countries on issues of common interest in preparation for the Ministerial. Our goal is a strengthened and revitalized GATT.

The U.S. has ended controls on footwear imports from Taiwan and South Korea established by the previous Administration.

We sought a more liberal renewal of the multi-fiber agreement than other industrial countries, allowing a renewed agreement which assured benefits to all parties.

The US Administration has announced that it will seek legislation by Congress to renew the generalized system of trade preferences (GSP) upon its expiration in 1985.

We have cooperated in the extension of the coffee and sugar agreements and will be active participants in their renegotiation.

Last May, we joined the International Natural Rubber Agreement, where we are working with other members to stabilize prices despite difficult market conditions.

The U.S. remains active in negotiations for commodity agreements designed to promote market development and research, as in the ongoing negotiations on jute. Such agreements hold promise for improving markets for many of the least developed commodity exporters.

2. Tailoring particular development strategies to the specific needs and potential of individual countries and regions.

The new US Administration has led an international rethinking of development issues, leading to a new seriousness of purpose on the part of governments and to an emerging consensus that neither increasing foreign aid nor any likely restructuring of the international economic system is a panacea for the problems of development countries.

The Administration has encouraged more pragmatic and effective approaches to development, emphasizing open markets and private initiative and taking into consideration the fact that trade and investment flows generate far more resources for development than concessional assistance.

We have tailored our own development strategies to the specific needs and potential of the individual countries and regions with which we cooperate.

We have supported international policies which recognize that the bulk of concessional assistance should go to the poorer countries and that wealthier countries should rely primarily on trade and investment.

Working with other interested countries, the U.S. has developed an integrated approach to the development of the Caribbean Basin, using a variety of trade, aid, and investment measures to establish the basis for rapid economic growth and political stability in that region.

3. Guiding our assistance toward the development of self-sustaining productive activities, particularly in food and energy.

The US Congress recently adopted the Foreign Assistance Act for Fiscal Year 1982, funding key economic and security objectives of the Administration and ending a long period of providing funds only through continuing resolutions.

Appropriations for foreign economic assistance total \$8.2 billion for Fiscal Year 1982, an increase of 10 percent above the continuing resolution for the previous year. The Administration is requesting an increase to \$8.6 billion for Fiscal Year 1983 despite politically difficult cut-backs in many areas of domestic spending.

We have completed a major assessment of the World Bank and other multilateral development banks, confirming continued US support and finding a variety of measures to improve their effectiveness.

Consistent with our effort to promote structural adjustment in countries facing balance of payments difficulties, the U.S. supported the March 1981 decision of the International Monetary Fund to continue its policy of enlarged access to the Fund's resources.

In January 1982, the U.S. and other donors agreed on a funding arrangement for the second replenishment of the International Fund for Agricultural Development (IFAD), for which the U.S. pledge is \$180 million.

The U.S. has been working to implement President Reagan's offer at Cancun to send US task forces to developing countries that request assistance on how to solve their food and agricultural development problems. The first task force will go soon to Peru, and 6-8 more are planned before the end of 1982.

We supported the IMF's broadening of the Compensatory Financing Facility to provide financial compensation to developing countries for temporary increases in the cost of imported food.

The U.S. negotiated and signed an extension of the 1980 Food Aid Convention which provides a framework for donor pledges for food aid totaling nearly 8 million metric tons, of which the U.S share is 4.47 million metric tons.

To help developing countries assess and take action against their energy problems, the U.S. has expanded its bilateral energy assistance program, doubling in the past year funding for new and renewable energy and starting a worldwide conventional energy technical assistance program. In Fiscal Year 1983, development assistance for energy should total \$70-75 million, 50 percent more than in Fiscal Year 1981.

We have carefully studied the World Bank's energy lending program. We believe improvements can and should be made to increase the "multiplier" effect of Bank loans. We also support the programmed commitment of substantial Bank resources to the energy sector (\$14 billion) over the coming 5 year period.

The United States played an active and constructive role in the UN Conference on New and Renewable Sources of Energy and, with minor reservations, supports the Nairobi Program of Action.

Domestic oil price decontrol has revigorated US production and substantially reduced US oil purchases from world markets, a major factor in the recent and continuing fall in world oil prices.

4. Improving the climate for private capital flows, particularly private investment.

Discussions have been initiated with a number of interested developing countries on a new prototype bilateral investment treaty, designed to help facilitate bilateral investment relations.

A Bureau of Private Enterprise has been created within the US Agency for International Development to help foster growth of indigenous private sectors in developing countries.

Legislation for the U.S. Overseas Private Investment Cooperation has been renewed, permitting OPIC to expand its support for US direct private investment in middle-income developing countries (from per capita GNP \$1000 to \$2950) and to facilitate US investor participation in new markets.

+ 02-11-1983

17

We are seeking a greater role for the World Bank group to act as a catalyst in stimulating private sector growth, e.g. by encouraging greater use of co-financing and the development of local private capital markets. The U.S. is interested in the World Bank's current re-examination of the potential for some form of multilateral political risk insurance arrangement.

Steadily increasing capital expenditures and exploratory activities by private US oil firms in developing countries has led, in the past year, to discoveries of oil and gas by American firms in Guatemala, Ivory Coast, Brazil, Argentina, Thailand and Colombia. Recently leased acreage in other areas in Africa and Asia holds much potential as well.

B-19

5. Creating a political atmosphere in which practical solutions can move forward, rather than founder on a reef of misguided policies that restrain and interfere with the international marketplace or foster inflation.

By strengthening its own national defense and cooperating with other governments, the U.S. has helped re-establish an international environment where developing countries can pursue their development objectives without fear of external aggression.

US efforts to restore non-inflationary growth to our own economy have already made progress in reducing world inflation. Growth will lead to a larger US market for exports from developing countries, and more rapid technological progress in the U.S. will help spread income-creating higher productivity throughout the world.

The U.S. is continuously carrying out President Reagan's commitment at Cancun to conduct a more formal dialogue with other nations -- bilaterally, with regional groups, in the United Nations, and in specialized international agencies.

We have pursued with a sense of urgency the Cancun decision to support in the United Nations a consensus to launch global negotiations on a basis to be mutually agreed. The US accepted the draft resolution circulated by the President of the UN General Assembly as amended to ensure that future talks offer the prospect of meaningful progress as expliciting outlined by President Reagan at Cancun.

March 4, 1982

memorandum

DATE: March 3, 1982

REPLY TO
ATTN OF: Ben ZycherSUBJECT: Energy Security Briefing Paper for the Versailles Summit,
Intergovernmental Group MeetingTO: Murray Weidenbaum
✓ Bill Niskanen*File
to France
Summit
(155422)*

The basic theme of the paper is "How to provide for 'energy security.'" Beginning with a short discussion of the Soviet gas pipeline, the paper is a mixed bag of general support for "market principles" combined with appeals for governments to do various things, both specified and not, to increase "energy security." In general, the paper is poor and contains specific arguments and proposals with substantial inherent difficulties. The following discussion deals with the various points in the order in which they arise in the paper.

(1) The discussion of the Soviet gas pipeline presents three scenarios for U.S. policy:

- (a) The Europeans abandon the pipeline and the U.S. supplies "alternatives" to diversify European energy sources. These alternatives might include greater U.S. coal exports. As a general proposition, the alternatives are likely to involve more rather than less intervention in energy markets.
- (b) The Europeans go ahead with the pipeline despite U.S. efforts to stop it.
- (c) The Europeans go ahead with the pipeline, the U.S. does not extend existing sanctions, but the U.S. and the Europeans cooperate to develop safety measures, e.g., more gas storage, alternative gas supplies, etc. This also is likely to lead to calls for greater governmental intervention and activity.



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

(2) "...in this time of relative oil surplus, there is a tendency to be lulled into complacency." The argument being made here is that "we" should take action to encourage a "diversified and safer" energy base. Some trumpet blasts are then presented for the IEP sharing arrangements; finally concern is expressed that investments in key alternatives, such as coal and nuclear, are not being made at sufficient rates. No specific proposals are made, but the tone of the discussion can lead nowhere but to arguments for public sector subsidies and spending. "Sufficient" is never defined, nor is there presented any discussion of why (European) energy markets are not operating properly. Some potential for mischief exists here.

*bull
shit.*

(3) The paper urges that oil imports be reduced over time. "Domestic alternatives" are to be "encouraged" as a means toward achieving this goal. The paper urges also that energy imports be "diversified." Both of these admonitions seem to imply greater governmental intervention ("cooperation") in energy markets. The paper does stress that "economic pricing" of energy be the principal tool to achieve these ends, but does not define what such pricing entails. All sorts of proposals could be raised under this banner.

(4) The paper argues that "sufficient" stocks may help avoid "panic" spot market behavior resulting in steep price increases. This argument has some problems, but, more important, the paper goes on to argue that stocks may deter the use of oil production as a political weapon. We should urge that this argument not be made. There is no evidence that embargoes are effective or that oil producers have acted other than as profit maximizers. The "oil weapon" argument has the unfortunate side effect of making the U.S. a supplicant toward the Saudis and others. Moreover, it is important to note that during the 1973 "embargo" Libya and Iraq refused to participate (in the embargo and the production cutback, respectively). This refusal took place despite the height of pan-Arab emotional appeal and unprecedented Arab unity. Above all, the refusal did not take place because of Libyan or Iraqi "moderation."

(5) The paper argues that "marginal replacement costs" be used as a guideline for energy pricing. Because of several ambiguities in this concept, it is difficult to know if it is correct in principle, but it raises all sorts of possible suggestions for mischievous policy proposals.

(6) The paper urges that the IEP Emergency Sharing System be reaffirmed as the major mechanism for dealing with oil supply disruptions. Our usual arguments apply here:

-3-

- (a) Why should we endorse a nonprice allocation mechanism? and
- (b) in the absence of international price controls, the IEP allocations would be irrelevant anyway.

(7) The paper urges recognition "that the opportunity exists over the next few years to increase strategic oil inventories." There is no consideration of costs or of private sector stock responses. The paper then offers the standard "flexibility" argument: we should "avoid taking binding decisions (on the use of oil stocks during disruptions) which could jeopardize the effectiveness of response in times of oil shortfall." This essentially argues that the government will do the right thing during disruptions, and that there are no private sector adverse effects of uncertainty surrounding government stockpile policy.

(8) The paper urges that the pace of natural gas resource development be accelerated in Summit countries. No suggestions for implementation of this acceleration are offered. The paper then argues that the IEA and EC develop emergency gas storage/production capacity. Clearly, this would require more governmental activity.

(9) The paper urges that the development of coal shipment facilities be stressed. This could lead to a whole series of subsidy arguments.

(10) The paper argues for an international study group on nuclear power and the fuel cycle, and for an international cooperative waste management project. These problems have been studied to death; furthermore, individual nations are wholly capable of dealing with nuclear waste problems, as is France currently.

(11) The study calls further for greater cost, task, and facility sharing in order to reduce the costs of national energy programs such as fusion, nuclear safety, and synfuels. All we need are more Concordes! Have these people ever heard of the private sector?

(12) The paper urges that the U.S. "continue to fill the SPR at a healthy rate" and that the government subsidize the development of port facilities in order "to vigorously promote U.S. coal exports." The paper also urges that legislation be enacted "requiring an effective framework for financing port improvements."!!\$!!\$!

(13) The paper argues that the U.S. "offer to contribute (money) to a major nuclear waste facility." This may be a good idea if waste storage, however safe, is a public good because of the political problems involved in getting any one state to accept a waste disposal site. Why this should be brought up at Versailles is beyond me.

(14) The paper then argues that means be considered to "promote energy production in developing countries" (why?) "by such means as increasing the multiplier effect of World Bank energy lending." Since the "multiplier," whatever it is, must be exogenous, this means more World Bank subsidies for boondoggles.

(15) The paper ends by lecturing other nations on what changes ought to be made in their energy policies. Some of the ideas are sound, while others are silly.

cc: JB, MF

Matsunaga 580-3311 Office

405-1737 Home

TRADE PRINCIPLES FOR VERSAILLES SUMMIT COMMUNIQUE

22
File
France
Summit
(155 ver)

1. The international trading system stands at an historic crossroad.
2. This system has achieved unprecedented progress through progressive reduction of tariff rates in the manufacturing sector.
3. The Summit countries reaffirm the central purpose of this system to liberalize and open access to markets which is responsible for the progress we have achieved.
4. The Summit countries express their determination to preserve and improve the existing system of international rules under GATT.
5. The Summit countries recognize, in particular, the need to bring the developing countries more fully into the international trading system, enabling these countries to enjoy the benefits and meet the obligations of this system.
6. The Summit countries affirm that further liberalization beyond existing areas covered by GATT benefits all countries and that this objective must be pursued over the long run in other areas, such as services, investment, and ^{high technology} agriculture, if we are to preserve forward momentum and avoid stalemate and protectionism in world trading relations.
7. The Summit countries strongly endorse the GATT Ministerial in November 1982 and call for an active agenda of trade negotiations in the 1980s.



CONFIDENTIAL ATTACHMENTS

The Under Secretary of the Treasury
for Monetary Affairs

March 5, 1982

For Henry Nau and Bob Hormats

Attached are two papers justifying our non-intervention exchange rate policy. One, which you have probably seen, was prepared for testimony last May. The other was recently prepared as briefing material for the visit of Belgian Prime Minister Martens. The second paper updates the arguments and also gives some additional data. I believe these two papers will be sufficient.

If you need something more, let me know. It's my understanding that presently this will be available for our use. We may want to consider at some point whether or not the shorter and more recent paper could be adapted for distribution to our summit partners.

Beryl W. Sprinkel
Beryl W. Sprinkel

CONFIDENTIAL

THIS IS A COVER SHEET

Security requirements are contained in Title 31, Code of Federal Regulations, Part 2, regarding the Classification, Downgrading, Declassification, and Safeguarding of National Security Information.



The unauthorized disclosure of the information contained in the attached document(s) could reasonably be expected to cause identifiable damage to the national security of the United States.

(This cover sheet is unclassified when separated from classified documents)

CONFIDENTIAL

DECLASSIFIED UPON REMOVAL
OF CLASSIFIED ENCLOSURES

File
Finance
Summary
(issues)
2/21/08



~~CONFIDENTIAL ATTACHMENTS~~
THE SECRETARY OF THE TREASURY
WASHINGTON

25
Dreyer

February 16, 1982

MEMORANDUM FOR THE HONORABLE CRAIG L. FULLER
ASSISTANT TO THE PRESIDENT FOR
CABINET AFFAIRS

SUBJECT : Briefing Material on U.S. Intervention
Policy for the President's Meeting
with Belgian Prime Minister Martens

We have been unable to obtain the complete briefing material on economic issues prepared for the President for this meeting, and are, therefore, unaware of whether the issue of intervention policy has been dealt with in that material. As you know, economic issues appear to be among the most prominent which the Belgians may raise during their visit, and, therefore, we are providing the following material for the President's meeting:

- 1) Tab A. Talking points on U.S. intervention policy.
- 2) Tab B. A chart showing the decline in the value of most major currencies relative to the dollar.
- 3) Tab C. A memorandum from Under Secretary Sprinkel which sets forth the European viewpoint on U.S. intervention policy and explains the rationale for our policy.

David L. Chew

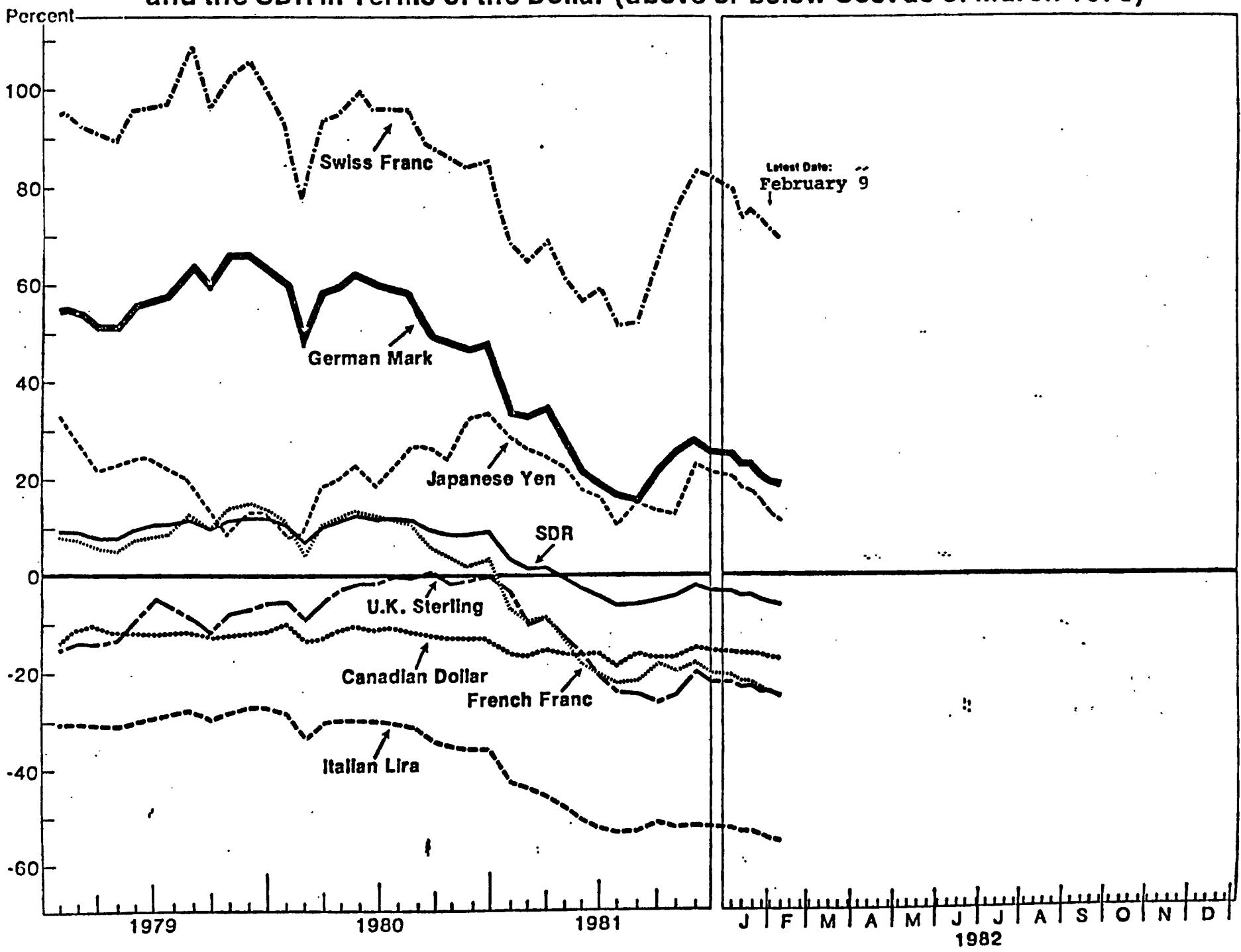
~~CONFIDENTIAL ATTACHMENTS~~

CONFIDENTIAL ATTACHMENTS

EXCHANGE RATE AND INTERVENTION POLICY

- Our exchange rate policy is one of non-intervention except during periods of "disorderly conditions."
- We will intervene when disorderly or crisis conditions affect the dollar exchange markets.
- The dollar exchange market is massive and highly efficient. We believe in free markets. Intervention by governments cannot be in sufficient size to affect equilibrium levels.
- Our duty as the major reserve and trading currency nation is to achieve growth and price stability at home. Thus the dollar will be firm and respected and will ensure the health of the international monetary system. Our trading partners will gain.
- Unanticipated intervention destabilizes exchange markets whereas a policy of minimal intervention provides certainty, thereby stabilizing the market.
- Years of high interest rates and massive intervention in international markets did not prevent the dollar from falling sharply from 1976 to 1980. Similarly, heavy intervention from July 1980 to early 1981 did not prevent the dollar from rising strongly.
- With instant communication and vast integrated international markets, the Government is unable to hold the international value of its currency at an artificial level. If it tries, it will first waste its international reserves, then its international credit lines. Who pays for this? The taxpayer.

Percentage Increase (or Decrease) in the Value of Major Foreign Currencies and the SDR in Terms of the Dollar (above or below Cost as of March 1973)



CONFIDENTIAL ATTACHMENTS

CONFIDENTIAL ATTACHMENTS

8/7



~~CONFIDENTIAL~~
THE UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
WASHINGTON, D.C. 20220

MEMORANDUM FOR THE HONORABLE WILLIAM P. CLARK
ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS

Subject: EEC Concerns Over U.S. Intervention Policy

Since mid-February 1981, when the United States adopted de facto a policy of limited intervention in foreign exchange markets, West Europeans (and, to a lesser extent, the Japanese) have complained intermittently about what they perceive as a U.S. attitude of "benign neglect" toward the dollar. Recently, as U.S. interest inched upwards and the value of the dollar rose on foreign exchanges, these complaints have become more vocal. Among other modifications in the U.S. macroeconomic policy, the EEC seeks to sway the U.S. Government toward a more activist stance in foreign exchange market, that is, it would like the U.S. to sell dollars in exchange for foreign currencies so as to slow the appreciation of the dollar.

Arguments for Intervention

Arguments for and against foreign exchange intervention are complex and subtle but at the most basic level exchange rate fluctuations affect a country more severely the larger its external sector (foreign trade and finance) is relative to its domestic sector. In this respect, EEC countries have a stronger interest in having exchange rates stabilized (by whatever means) than the more self-sufficient United States. The U.S. does have a stake in a relatively stable pattern of exchange rates that produces in the long run a sustainable path of external balances. It is our firm belief, however, that such a stable pattern can be achieved only as a result of convergence of macroeconomic policies of the countries concerned. We realize that under some circumstances, especially when the cause of a movement in the exchange rate is readily identifiable and/or reversible, massive official intervention, especially when coupled with other supporting actions or pronouncements, can temporarily affect the exchange rate. It has been amply demonstrated, however, that such intervention is not costless and its effects are by no means certain.

Given these considerations, the policy of the United States is not to foreclose the option of influencing the exchange rate via intervention when there is a preponderance of evidence that such a measure would be beneficial. Basically, we stand ready to intervene when the foreign exchange market becomes disorderly in the wake of

~~DECLASSIFIED~~

Authority 14r Straw to Leonard, 8/22/68
BY [Signature] NARA, Date 2/21/08

CONFIDENTIAL

Classified by [Signature]
 Declassify Review for
Declassification on 2/16/89

an extraordinary occurrence, but we are fundamentally opposed to the notion that the dollar exchange rate can and should be managed by countering market forces by means of sustained sales (or purchases) of dollars in exchange for foreign currencies.

Two broad rationales for intervention are commonly invoked in the theory and practice of international finance: one to dampen short-term exchange rate fluctuations, the other to affect the level of exchange rates. The justification for the first rationale is to be found in occasional spasms of speculative frenzy in the foreign exchange market; the justification for the second usually is the presumed divergence between the actual exchange rate and what is deemed to be the equilibrium exchange rate.

Regarding the first justification, empirical studies do not lend support to the contention that exchange rate movements were exceptionally erratic since the U.S. ceased intervening a year ago. If the link between interest rate differentials and exchange rates is recognized and recent volatility of U.S. interest rates is taken into account, the residual variability of exchange rates during the past year has not been out of line with that in the preceding periods, characterized by truly massive U.S. official intervention. Furthermore, total official intervention by foreign monetary authorities over the past 12 months was very large which has not prevented the exchange rates from moving around substantially. It is extremely doubtful that dollar sales by the U.S. in addition to the \$30 billion sold over the past year by foreign monetary authorities in the exchange market would have made a noticeable contribution to exchange rate stability. evtd?

Turning to the second justification -- affecting the level of exchange rates -- it appears to be the true focus of European concerns. Even though EEC representatives speak about the volatility of exchange rates, they are primarily displeased with their levels, that is, with a high value of the dollar in terms of other currencies.

Two principal sources of this displeasure can be identified. The first one is that raw materials (in particular oil) priced in dollars cost more in terms of European currencies. This means that EEC countries have to export more in order to earn the foreign exchange needed to import a given volume of raw materials -- their terms of trade deteriorate. The second source of European displeasure is that in order to prevent their currencies from weakening against the dollar, they feel compelled to keep their interest rates higher than they would like to in the light of their domestic output and employment targets.

It would be fair to presume that the Europeans would insist less on resumption of official U.S. intervention if the dollar could be weakened as a consequence of a drop in U. S. interest rates. The difference of opinion between the U.S. and the EEC amounts then to the prescription of policy measures likely to result in lower interest rates in the U.S. The EEC prescription is to expand the

dollar money supply which can be accomplished by the Fed either by selling dollars for U.S. Treasury securities (open market operations) or for, say, German Treasury securities (exchange market intervention). Our prescription is to hold on to the course of steady and restrained expansion in money supply which, in time, will inevitably break inflationary expectations, bring down nominal interest rates in the U.S. and possibly moderate somewhat the upward pressure on the dollar relative to other currencies.

In essence, then, the EEC puts forward a familiar argument about the defective policy mix of the Administration: too loose fiscal policy and too tight monetary policy. Quite apart from the soundness of this argument and from the merits of adjusting the policy mix in order to accommodate our allies, U.S. monetary policy does not appear excessively tight in comparison with the policies pursued by other major foreign countries and U.S. fiscal policy (deficit as percentage of GNP) is definitely not too loose as compared to policies of our partners.

Response to EEC Criticism

We should point out to the Europeans that we are somewhat puzzled ourselves by the persistence of high real interest rates and are very uncomfortable with them; that, while we recognize that these high rates contribute to the strength of the dollar, it is our belief that there are other potent factors accounting for a strong dollar, e.g., political and psychological factors and, primarily, what is perceived by the market as a progressive divergence between the U.S. and EEC in their respective emphases on fighting inflation versus stimulation of employment. We should make clear our firm belief in the total futility of short-term fully sterilized intervention as a means of influencing exchange rate levels in the medium and long-term and our skepticism with regard to the efficacy of such intervention in contributing to exchange market stability. Furthermore, we ought to convey to the Europeans that we regard non-sterilized intervention as having roughly the same long run effects on monetary aggregates as open market operations and, consequently, that their request to bring about a weaker dollar is equivalent to a request to expand our money supply, possibly well in excess of our intended targets. Finally, we should impress upon them that, barring a deliberate return to an inflationary monetary policy, resorting to the expedient of short-term tampering with interest rates and exchange rates will make the Fed's task of steadying the rate of monetary growth more difficult, generate greater uncertainty in the market place, lead to an increase in inflationary and risk premiums embedded in nominal interest rates and thus be self-defeating.

On balance, we are unwilling to intervene because: (1) it would complicate the conduct of our domestic monetary policy, and

~~CONFIDENTIAL~~
-4-

(2) would not prevent the dollar from further strengthening as long as political and economic factors are perceived to favor the U.S. currency.

Beryl W. Sprinkel
Beryl W. Sprinkel

::

:

:

~~CONFIDENTIAL~~

Classified by RLUS
 Declassify Review 2/16/59
Declassification on 2/16/59



32

STATEMENT OF THE HONORABLE BERYL W. SPRINKEL
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE JOINT ECONOMIC COMMITTEE
MAY 4, 1981

I am pleased to have this opportunity to testify before this Committee. Since this is my first testimony on international monetary questions, I would like to say that I look forward to working with the Congress as we formulate and implement our policies in this area. The issues are complex, and thus I seek your guidance and collective experience.

Today I will sketch this Administration's approach to the international monetary system in general and then discuss our policies concerning the foreign exchange markets in particular. I will also comment briefly on other questions you asked me to address, some of which are presently under intensive review by the Administration. In future testimony, I will discuss in greater depth our policies involving other dimensions of the international monetary system.

THE INTERNATIONAL MONETARY SYSTEM AND THE DOMESTIC BASE

As you are aware, one of the success stories of the postwar period has been the dramatic growth in economic and financial linkages among nations. This long period of growing international economic and financial flows contrasts sharply with the 1930's when trade wars and currency controls exacerbated the world depression and contributed to the start of World War II. Following World War II, the United States not only played a central leadership role in building international trade and monetary arrangements

based on the principles of non-discrimination and open markets, but the U.S. domestic economy provided a solid foundation for the growth of the world economy.

For example, a healthy U.S. economy provided a diversified and growing market for the exports of other nations. In turn, U.S. consumers benefited from the imports of raw materials and less expensive goods from abroad, while U.S. workers and agricultural producers benefited from exporting food, goods and services to a growing world economy. To be sure, some particular jobs became obsolescent because of imports, but a healthy and growing U.S. economy and growing foreign markets usually enabled workers to quickly find other, often better jobs. Overall employment and income per capita in the United States is higher than it would be if international trade were restricted.

In the realm of international finance, the United States also played a highly significant role in the evolution of the world economy during the postwar period. The large size of U.S. financial markets and the relatively low rate of U.S. inflation during the postwar period encouraged others to use the dollar as a unit of account and a medium of exchange when making international transactions. In other words, trade related transactions among foreign countries were more often than not quoted in dollars and paid for in dollars instead of their own national currencies.

The dollar has also been the dominant foreign currency in which foreigners save as well as borrow. For example, not only do foreign residents hold most of their international financial assets in dollar denominated assets, but most of their external borrowing is denominated in dollars. In short, the dollar has played a central role in facilitating the growth of international transactions including financial transactions as well as transactions in goods and services.

During the last decade or so, however, the United States has too often been a source of instability rather than a source of stability in the world economy. Although I believe that many have exaggerated the relative decline of the U.S. economy, we need to put our own domestic economy in order not only for domestic reasons, but also to reestablish the U.S. economy as a source of stability in the larger world economy. This administration rejects an international monetary policy based on indifference or benign neglect.

In statements to the American public, the President and his key economic officials have concentrated primarily on the domestic objectives served by that program. The President's program, however, also is structured to achieve important international economic objectives:

35

First, monetary and price stability on the domestic front will go a long way towards permanently restoring confidence in the dollar.

Second, monetary and price stability also will contribute to stability in international as well as domestic financial markets.

Third, a more stable domestic growth rate will reduce the volatility of U.S. import flows and thus contribute to economic stability in other countries.

Fourth, a more dynamic and innovative U.S. economy will provide larger market opportunities for foreign producers and better domestic job opportunities for those whose jobs are affected by foreign competition. Thus, protectionist pressures will recede and U.S. consumers will continue to enjoy the benefits of imports of goods and raw materials.

In short, the domestic objectives of the Reagan Administration's economic program are consistent with our overall international economic policy objective of restoring the U.S. economy and the dollar as a source of stability and growth for the rest of the world economy.

In the remainder of my testimony I plan to focus on the implications of the Reagan Administration's policies on the foreign exchange markets.

The Foreign Exchange Markets

The term "foreign exchange markets" is commonly used but more often than not misunderstood. While most of us associate currency traders and dealers in cities like Zurich, London, Chicago, and New York with the foreign exchange markets, a foreign exchange market exists wherever currency transactions take place - which more often than not occur over the telephone. Although commercial banks play an important role by facilitating currency transactions, hundreds of thousands of individuals and institutions engage directly in exchange market transactions everyday. In addition, it is impossible to draw a line between foreign exchange market transactions and transactions in other markets. All of us have an indirect impact on the exchange markets through the economic decisions we make in our daily lives. For example, if I choose to buy a domestic car instead of a foreign car, my decision indirectly affects exchange rates.

An exchange rate is the price of one currency in terms of another and, like any price, is determined by supply and demand. In turn, the supply and demand for different currencies are influenced by more fundamental economic factors including -- among others -- changes in relative inflation rates among countries, changes in relative unit labor costs due to differential increases in productivity, shifts in the composition of demand for goods and services, energy market developments, technological innovations, and shifts in real rates of return among countries. Other fundamental economic factors include

government measures designed to influence international trade flows and international financial flows.

In addition, the supply and demand for currencies in the exchange markets are influenced by expectations about future developments in the fundamentals. For example, if market decision makers expect the future U.S. rate of inflation to fall relative to the rate of inflation in other countries, the dollar likely will strengthen even if the current rate of inflation is relatively high.

During the last decade or so, not only has there been a relative deterioration in many of the domestic economic fundamentals that influence the external value of the dollar but there also has been greater volatility in these fundamentals. The deterioration contributed to an erosion of confidence in the dollar while the volatility exacerbated fluctuations in dollar exchange rates not only directly, but also by undermining expectations. Looking to the future, the international monetary policy of this administration will concentrate on strengthening and stabilizing the domestic economic factors which have undermined the dollar during the last decade or so. In short, our exchange market policy can best be described as a "return to the fundamentals."

U.S. Monetary Policy and the Dollar

Exchange market participants and theoreticians may not agree on what determines exchange rates or when exchange rates are in equilibrium, but I think that most would agree that domestic monetary policies have an overriding bearing on the

behavior of exchange rates. In this connection, the efforts of the Federal Reserve to achieve a permanently lower, noninflationary rate of monetary expansion deserves the support of the Congress and the American public. In addition to the domestic benefits, we believe that such a monetary policy is fundamental to restoring long-term confidence in the dollar.

But the transition to a noninflationary rate of monetary growth needs to be managed in a way that minimizes domestic and international economic dislocations. Given the high money growth and inflation rates of the last decade, I believe that a steady and predictable decline in the rate of monetary growth will facilitate that transition with the least economic disruption. This also has been the stated objective of the Federal Reserve since the change in monetary policy procedures implemented in October 1979, but the use of credit controls during the spring of 1980 complicated the ability of the Federal Reserve to achieve a steady reduction in money growth rates.

The money-interest rate - exchange rate oscillations during the past year have posed some domestic money management difficulties for other major currency countries. Most governments, however, have muted their concern about U.S. interest rates because they understand and strongly support the long run objectives of the Federal Reserve. The forbearance of other governments is appreciated, but the impact of U.S. economic shifts on other countries provides one more reason for us to conduct the transition to a non-inflationary economy as smoothly as possible.

Other Domestic Policies and the Dollar

I would like to briefly mention other elements of the President's economic program which I believe will have a favorable impact on the dollar because they will improve the competitive position of U.S. goods and services vis-a-vis foreign goods and services and because they will establish a more favorable U.S. investment climate not only for foreigners, but also domestic investors who might otherwise invest abroad:

- (1) regulatory reform will reduce the cost of doing business
- (2) reduction in marginal tax rates will increase incentives for working, saving, investing, and innovating
- (3) restrained government spending will free productive resources for use in the private sector
- (4) the removal of oil price controls will encourage oil production, discourage oil consumption and thus reduce oil imports
- (5) a more balanced approach to environmental considerations will encourage more energy production

I should note that an improvement in the competitive position of the U.S. economy and the development of a more favorable investment climate will not necessarily result in a current account surplus for the United States over the near term. Although the United States in recent quarters has experienced a modest current account surplus, I would not be surprised if it moved toward a deficit this year or next. In part, this is

likely to occur because the OPEC surpluses will remain large while a portion of the excessively large deficits in some other countries will likely be shifted to the United States because of the recent appreciation of the dollar and domestic economic developments in some of those countries.

Because many instinctively believe that a current account deficit is a sign of a weak economy and automatically leads to a weak currency, I would like to take a few moments to discuss some popular misperceptions about the relationship between current account balances and exchange rates. Different views can be found among theoreticians and market participants alike, and while I do not agree with those who argue that current account developments have no impact on exchange rates, I also disagree with those who find a simple definite relation between current account balances and exchange rates.

A current account deficit does not necessarily result in a weak currency. If a current account deficit occurs in association with a non-inflationary monetary policy and a relatively high real rate of return on investments because of a dynamic and growing economy, net capital flows into a country are likely to offset the current account deficit and contribute to a stable currency. In other words, a stable dollar in the face of a U.S. current account deficit would represent the attractiveness of the U.S. economy as a place to invest funds.

On the other hand, a current account deficit in conjunction with rising inflationary expectations, declining productivity, and perceived structural problems is a recipe for a sharply declining currency. Such circumstances existed in the United States, for example, during late 1977 and early 1978. U.S. inflation rose relative to foreign inflation rates, U.S. productivity fell relative to foreign productivity, and domestic price controls and other regulations encouraged energy consumption and discouraged energy production. As a consequence, Americans and foreigners were reluctant to hold dollars and the dollar fell against other major currencies. Even when the U.S. current account began to improve sharply by mid 1978, the dollar was subject to periods of weakness because of continued high inflationary expectations and a perception that the U.S. economy had deep structural problems.

In addition to misunderstandings about the relationship between current account balances and exchange rates, there also exist misunderstandings about the relationship between the current account balance and domestic employment. The latter misunderstandings often have their roots in simple paradigms which suggest that a current account deficit acts as a drag on economic growth and employment. As indicated earlier, however, a sustained deficit may reflect a dynamic and growing economy providing high return investment opportunities to foreign as well as domestic investors. In such circumstances the deficit can easily be financed by net commercial capital

flows. The net flow of resources attracted from abroad actually permits a higher rate of investment, a higher rate of employment, and a higher income level than would be attainable otherwise.

Other Factors and Exchange Rate Adjustments

Although we are confident that the President's program will reestablish the dollar as a source of international economic stability, this does not preclude variations in exchange rates over time. For one thing, fluctuations in inflation and other economic factors in other countries can result in exchange rate movements. To the extent that such fluctuations are the result of improper domestic policies in other countries, we hope that other governments also will give a high priority to achieving price stability and better economic performance.

Restrictive trade measures and direct and indirect capital controls also have an influence on exchange rates. Such measures not only distort the flows of goods, services and capital among countries, but shifts which are motivated by domestic protectionist pressures or other reasons also contribute to exchange market volatility. Since such actions are undesirable per se, this administration remains committed to a more open and competitive international economic system.

Even if all governments were able to implement and maintain appropriate domestic economic policies, various economic developments would continue to influence exchange rates over time. Technological developments, shifts in the composition of demand for goods and services, and economic advances in the developing countries are among the many factors that will influence exchange

rates over time. Gradual exchange rate changes reflecting real economic factors are part and parcel of a continuing adjustment process of relative prices to evolving economic conditions at home and abroad. This brings me to another aspect of what has traditionally been a part of international monetary policy and that is government intervention in the exchange markets.

U.S. GOVERNMENT INTERVENTION IN THE EXCHANGE MARKETS

During much of the postwar period, under what became known as the Bretton Woods system, governments held their exchange rates fixed against the dollar by intervening in the exchange markets whenever supply of and demand for their currencies were not in balance at the desired exchange rate. The U.S. government did not intervene in the exchange markets, but instead stood ready to buy and sell gold against dollars at a fixed price with foreign governments. As national economies became more developed and as trade and financial linkages among countries became more extensive, shifts in the underlying economic fundamentals among countries, including shifts in relative inflation rates, confronted governments with the choice of either adjusting their exchange rates or intervening massively in the markets to maintain fixed rates.

During the early seventies, the postwar Bretton Woods system of fixed but adjustable exchange rates collapsed. An increasingly expansionary U.S. monetary policy and a decline in the international competitive position of the U.S. economy accelerated the collapse, but the end of the fixed rate system would have occurred in any case since excessively rigid rates

prevented gradual adjustments to real economic shifts. The era of floating rates began in March 1973. Foreign governments, however, continued to intervene periodically in the exchange markets to influence rates. In addition, the U.S. government also adopted a policy of being prepared to intervene in the exchange markets.

The Secretary of the Treasury is the chief financial officer of the United States. In close cooperation with the Federal Reserve, he establishes U.S. exchange market intervention policies. Both the Treasury and the Federal Reserve engage in exchange market operations in close coordination to ensure consistency with overall U.S. international monetary and financial policy. The Federal Reserve Bank of New York acts as agent for both the Federal Reserve System and the Treasury when exchange market intervention occurs.

Since U.S. exchange market policies have a direct impact on other major currencies, U.S. authorities have traditionally consulted with the financial authorities of other major currency countries. In order to fulfill its multilateral obligations under the Articles of Agreement of the IMF, the U.S. Treasury also has the responsibility to keep the IMF informed of its exchange market policies consistent with the IMF's role as overseer of the international monetary system.

During the past few months we have devoted a considerable amount of time developing this Administration's exchange market policies. We have reviewed the history of U.S. exchange market intervention policies with primary emphasis on the period following March 1973. We have consulted with officials at the Federal Reserve and we have sought the views of financial and monetary officials in other major currency countries. We have talked to academic specialists and reviewed a good deal of the burgeoning theoretical and empirical literature on the subject of exchange rates. In addition, we have sought guidance from previous Treasury officials and participants in the market. In the remainder of my testimony, I will briefly summarize the lessons learned from U.S. exchange market experience since 1973 and then outline the approach of this Administration to the exchange markets.

U.S. Intervention Policies Since 1973

The current era of floating exchange rates began in March 1973 when most major industrial countries abandoned efforts to maintain fixed exchange rates against the dollar. Although rates were no longer held fixed, many governments outside the United States continued to intervene in the exchange markets from time to time to influence their exchange rates. Initially the United States continued a policy of non-intervention, but periods arose when exchange market conditions led the United States to intervene. Such periods arose for example in the summer of 1973 and from late 1974 to early 1975.

In July 1973, Secretary Shultz and Federal Reserve Chairman Arthur Burns issued a joint statement that active intervention would take place at whatever times and in whatever amounts were appropriate for maintaining orderly market conditions. In November 1975, in the "Declaration of Rambouillet" following the economic summit, the heads of governments stated their agreement to act to counter disorderly market conditions or erratic fluctuations in exchange rates. Although the difference between the statements may appear to be one of nuance, the latter statement more accurately reflected what in effect was a minimalist intervention policy on the part of Secretaries Shultz and Simon.

Secretary Blumenthal also began his term of office with a strong disposition in favor of minimal intervention in the exchange markets. However, official U.S. statements were interpreted as favoring a decline in the dollar in order to reduce the U.S. current account deficit. During the last quarter of 1977, the dollar fell sharply when accelerating inflation and a deteriorating current account balance emerged along with press reports rejuvenating the "talking down the dollar" theme.

Using Federal Reserve swap arrangements, the United States intervened heavily in support of the dollar beginning in October 1977. With pressure continuing, the Treasury announced in early January 1978 that it had directly established a DM swap agreement with the Bundesbank and that it would join in forceful operations to counter disorder. The Treasury also announced that other sources (including the U.S. reserve position in the IMF) were available if needed. In total, the U.S. sold \$2.9 billion net of foreign currency in support of the dollar between October 1977

and March 1978, financed by Federal Reserve and Treasury drawings under swap agreements. When the exchange markets stabilized in the second quarter through summer, the U.S. was able to acquire \$2.1 billion of foreign currencies net, permitting repayment of a substantial portion of the earlier swap drawings.

In April 1978, pursuant to the notification provisions of the IMF Articles, the United States notified the IMF that:

"...exchange rates are determined on the basis of demand and supply conditions in the exchange markets.

However, the (U.S.) authorities intervene when necessary to counter disorderly conditions in the exchange markets".

The definition of "disorderly markets" was left open and of necessity subject to interpretation by officials. Although at times intervention was heavy, it is fair to characterize U.S. policy until late 1978 as one in which intervention was the exception and not the rule.

In late 1978, however, the character of U.S. intervention changed. In August of 1978 pressure on the dollar renewed amid spreading recognition of serious U.S. economic problems--including inflation and inadequate energy adjustments -- and growing skepticism that the Carter administration had effective policy plans to deal with them. An economic speech by President Carter in mid October was designed to restore confidence, but the substance of the speech had the opposite impact. Faced with almost chaotic markets, the President announced a dollar rescue package on November 1, 1978. A major element of this program was a commitment to a more active intervention policy, to be funded

by mobilizing large foreign currency resources including the issuance of foreign currency securities (which became known as Carter bonds).

From November 1, 1978, until shortly after this Administration took office in January 1981, U.S. intervention in the exchange market often reached massive proportions by historical U.S. standards (although not by the more activist standards of many foreign governments). At times, the U.S. government intervened in the exchange markets to retard declines in the dollar by buying dollars with foreign currencies. At other times when the dollar was strong, the previous administration intervened and bought foreign currencies with dollars. When the Carter administration left office, it had purchased sufficient amounts of foreign currencies to repay all foreign currency liabilities arising from swaps and offset other foreign currency liabilities (Carter bonds). U.S. net holdings of foreign currencies amounted to about \$5 billion.

In my view the Carter administration placed too much emphasis on treating the symptoms instead of the underlying economic problems. As a consequence, it found it necessary at times to engage in high levels of intervention to defend the dollar.

Current Intervention Policy

On the Carter Administration's departure from office, intervention was being conducted at a relatively high level, virtually on a day-to-day basis, with the objective of using the periods of dollar strength not only to cover earlier foreign currency liabilities, but also to build foreign currency

reserves. This was the first time, at least in recent history, that the United States had embarked on a conscious policy of building up foreign currency reserves.

In light of this situation, we scaled back U.S. intervention purchases of foreign currency beginning in mid February. At that time, our own thinking about intervention policy was taking shape and we had come to the preliminary conclusion that an activist intervention policy was neither needed nor desired.

Now that our review is completed, we can be more specific about our intervention policy. In conjunction with our emphasis on the economic fundamentals, we intend to return to the more limited pre 1978 concept of intervention by intervening only when necessary to counter conditions of disorder in the market.

As in the past, we will not attempt to define disorderly market conditions in advance. When making a decision concerning whether exchange market conditions justify intervention, we will consult closely with authorities in other major currency governments. As also in the past, the Treasury and the Federal Reserve will keep the public informed regarding U.S. exchange market intervention policy.

With Congress' support of the President's economic program and a successful Federal Reserve policy of gradually reducing the rate of monetary growth to a non-inflationary level, we believe that the likelihood of disorderly conditions will be significantly less in the future. However, we cannot predict the future. Since unforeseen circumstances at home or abroad can cause disorderly conditions, intervention may at times be necessary.

In our judgement, there are a number of reasons why an activist intervention policy is not justified. As I indicated earlier in my testimony, exchange rates reflect the outcome of a large number of decision makers with each evaluating a complex array of information about political and economic developments worldwide. During the last decade not only did the number of individuals and institutions engaged directly in exchange market transactions grow dramatically, but their knowledge and experience with floating rates also deepened. In effect, markets have become more efficient in evaluating and adjusting to new information. Significant and frequent intervention by governments assumes that a relatively few officials know better where exchange rates should (or shouldn't) be than a large number of decision makers in the market, and that public funds should be put at risk on the basis of that assumption.

Before any government engages in an activist intervention policy, it also has a responsibility to determine whether more fundamental domestic economic changes are in order. In addition, it should be reasonably sure that exchange market intervention is not destabilizing from a longer term perspective. For example, a case can be made that some exchange market intervention in the past was destabilizing in the sense that it kept the dollar away from its equilibrium and contributed to the steepness of its later decline.

Efforts to manage exchange rates also can make it more difficult to follow the correct domestic monetary policy.

If domestic monetary policy then gets off track, the basis will have been laid for future exchange rate shifts. In short, there is a danger that governments will end up chasing after their own mistakes.

Although we do not expect to intervene in the exchange markets on a regular basis, we will continue to monitor closely developments in the exchange markets as we do in the other financial markets. The information obtained in those markets provides valuable insights into the performance of the economy as well as guides for government policy makers. In addition, we will evaluate capital and exchange market developments in order to ascertain whether direct or indirect government controls or regulations are disrupting the performance of markets and exacerbating exchange rate fluctuations. Direct and indirect controls are often used, for example, to influence banking and other capital flows. In addition, exchange market intervention by governments needs to be monitored and evaluated in order to insure that such intervention is not in fact destabilizing. We plan to pursue such efforts on a bilateral basis and within the surveillance procedures of the International Monetary Fund.

In this connection, we believe that much more needs to be learned about what factors influence international economic and financial flows. Thus, we welcome and will make every effort to encourage research work of scholars and market participants. Regarding research work on exchange markets and exchange market intervention, I have asked the staff of the

Treasury, in cooperation with the Federal Reserve, to explore ways of making available more detailed historical data on U.S. exchange market intervention.

In conclusion, and so that there is no misunderstanding, I want to state once again that the Reagan Administration intends to emphasize the fundamentals in its approach to the dollar and the exchange markets.

This is fully consistent with our undertakings in the IMF to direct our economic and financial policies toward the objectives of orderly economic growth and price stability; and to seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary policy that does not tend to produce erratic disruptions.

A predictable noninflationary rate of money growth combined with cuts in marginal tax rates, control of government expenditures and constraints on regulatory excesses are the key elements of our strategy to regain growth and stability. We are making every effort to persuade the Congress of the merits and necessity of our program and we strongly support the Federal Reserve in its objective of achieving a noninflationary money growth rate. If unforeseen developments, however, trigger disorderly conditions in the exchange markets, we stand ready to intervene.

OTHER QUESTIONS

The Committee's letter of invitation requested comments on several other specific questions, including the roles of the IMF and the multilateral development banks, U.S. participation in those institutions, and the possibility of a return to the gold standard.

With respect to the role of the IMF in the system, I feel strongly that the IMF has played an important positive role over the years, in fostering international monetary cooperation and the growth of an open and interdependent world economy. Today, at a time of large world payments imbalances, the IMF is well-equipped both to meet disturbances that might threaten the stability of the system and to help countries address their serious economic problems. The Fund's role is not, essentially, the provision of financing, although that is an important part of the picture. In my view, the key to the IMF is its role in encouraging, in fact requiring, that countries using its resources adopt sound economic policies designed to correct their balance of payments problems.

It is critically important that the IMF retain this function and that it continue to require specified and appropriate economic policy measures as a condition for its financing. I readily acknowledge that the nature of the adjustment programs required by the Fund must evolve over time with changes in world economic conditions. For example, the IMF is in present circumstances giving greater attention, along with its traditional emphasis on demand management, to changes of economic structure

required by the energy situation, and to "supply side" questions such as incentives for savings and investment and the elimination of impediments to efficient resource allocation. This is appropriate, and such considerations have a role to play in designing policy conditions. But it would be a serious mistake to yield to pressures to weaken the concept of conditionality itself, both in terms of the health and stability of the world economy and in terms of sustaining support for the IMF as a monetary institution.

With respect to the development banks, the Reagan Administration attaches great importance to prompt and favorable action on the legislation now before the Congress. We recognize the essential support that the development banks have provided, and continue to provide, for orderly economic development; the long record of bipartisan Congressional support for U.S. participation in these institutions; and the critical need for the United States to carry out international agreements already negotiated. It is particularly urgent to have approval of legislation for IDA VI and the African Development Bank, for which funding is needed this fiscal year.

At the same time, U.S. participation in these institutions has been a significant proportion of both present and projected foreign assistance levels. The question of funding levels for the banks was necessarily a part of our budget planning, and the MDBs could not be exempted from our program to get immediate control over Federal spending. For the critical years 1981 and 1982, the President's proposals reduce the last Administration's appropriations request for the MDBs by \$540 million and \$936

million respectively. This approach is designed to enable the United States to carry out its share of internationally negotiated agreements and still meet the demands of a tightly disciplined overall U.S. budget.

From a longer-term perspective, the Reagan Administration is aware that a number of serious questions have been raised about U.S. participation in the multilateral development banks, including the size of U.S. contributions, U.S. influence in the banks, and the size, growth and orientation of bank lending. We intend to address these issues and have initiated a comprehensive interagency assessment to evaluate the costs and benefits of our participation, including all U.S. interests affected and the ability of the banks to increase their efficiency. We plan to establish an overall policy framework for U.S. participation, and to identify the major policy objectives which should be pursued in any future replenishment negotiations the United States might participate in.

With respect to the role of gold, the Committee is aware that the Secretary of the Treasury will soon be establishing a Commission to study and report to the Congress, with recommendations, on the role of gold in the domestic and international monetary systems. This has been an area of increasing interest, stimulated in part, I believe, by the persistent problem of inflation of this country, and I feel that the question needs a thorough and serious airing. We plan to make an announcement soon on establishment of the Commission and initiate its work

promptly. We will want to consult with the Congressional and other participants about the Commission's work program and schedule, and we look forward to cooperating with the Congress on this project.



ACTION: ECON-4
INFO: AMB, DCM, POL, LAB, POLA, EMIN, FCS, FIN, AGR, SCI, ICA, P-4, FJ, DO, 21

VZCZCTK0198
PP RUEHKO
DE RUFHFR #8136/01 0642042
ZNY CCCCC ZZH
P 052028Z MAR 82
FM AMEMEASSY PARIS
TO RUEHC/SECSTATE WASHDC PRIORITY 1207
RUEHDC/USDOC WASHDC
RUEATRS/DEPARTMENT OF TREASURY WASHDC
INFO RUFHOO/ALL OECD CAPITALS
RUFHGV/USMISSION GENEVA 8548
BT
~~LIMITED OFFICIAL USE~~ PARIS 08136
USOECD
PASS USTR
EXIMBANK

'82 MAR -6 AM 32

*File
France
Summit
(Issues)*

DECLASSIFIED
NLRR M07-081 #51074

BY _____ JARA DATE _____

E.O. 12065: N/A
TAGS: OECD, ETRD
SUBJECT: CECD TRADE COMMITTEE MEETING MARCH 1-3, 1982

REF: (A) PARIS 5691, (B) STATE 52036

1. SUMMARY: TRADE COMMITTEE (TC) SUCCESSFULLY COMPLETED DETAILED CONSIDERATION OF PAPER ON ISSUES TO BE ADDRESSED IN THE TRADE FIELD IN THE 1980S. GIVEN THE PREVAILING PESSIMISTIC ATTITUDE OF THE EC REPS AT THE MEETING, THE US DEL AND CHAIR STEEG HAD TO EXERT PERIODIC PRESSURE TO ACHIEVE PRAGMATIC CONCLUSIONS WHICH CAN SERVE AS A POSITIVE BASIS FOR THE SECRETARY GENERAL'S PAPER. MEETING REVEALED WEAK SUPPORT AND/OR OPPOSITION TO A NUMBER OF US POSITIONS, E.G. MONETARY POLICY, EAST/WEST TRADE. SECRETARIAT WILL PRODUCE DRAFT WRITTEN SUMMARY OF DISCUSSION LATER THIS WEEK. DELEGATIONS WILL HAVE A WEEK IN WHICH TO SUBMIT COMMENTS. TC APPROVED WITH NO CHANGES THE AGRICULTURE STUDY AND AGREED THAT FOLLOW-UP WITHIN BOTH TC AND COMMITTEE FOR AGRICULTURE IS NECESSARY. DISCUSSION OF TRADE IN SERVICES SHOWED SUPPORT FOR US POSITION TO INCLUDE ITEM IN GATT MINISTERIAL AGENDA AND GENERAL RECOGNITION THAT ITEM WILL HAVE TO APPEAR IN OECD MINISTERIAL

COMMUNIQUE. DATE OF NEXT MEETING SET FOR APRIL 15-16, 1982. END SUMMARY.

2. TC DISCUSSION PROCEEDED FROM VERY GENERAL COMMENTS BY US, EC AND SWISS REPS TO A DETAILED CONSIDERATION OF THE TRADE ISSUES PAPER (SG(82)1) BASED ON THE CHAIR'S OUTLINE AS PRESENTED IN HER LETTER OF FEBRUARY 16 (SEE REFTTEL A). FOLLOWING ACCOUNT IS KEYED TO NUMBERED PARAGRAPHS OF THAT LETTER WHICH GAVE SUGGESTED DISCUSSION TOPICS DERIVED FROM THE TRADE PAPER. STEEG'S CRAI SUMMARY WILL BE DISTRIBUTED IN WRITTEN DRAFT AT THE END OF THIS WEEK. DELEGATIONS WILL BE GIVEN UNTIL MARCH 15 TO PROPOSE CHANGES. MISSION WILL TRANSMIT ASAP.

INTERRELATIONS BETWEEN MACRO ECONOMICS AND TRADE (PARAS 1-4)

3. THERE WAS A GENERAL CALL FOR MACRO ECONOMIC OFFICIALS TO TAKE ACCOUNT OF EFFECT ON TRADE OF MACRO ECONOMIC POLICY, THOUGH NO EXPLICIT SUGGESTIONS WERE MADE AS TO HOW THIS PROCESS WOULD TAKE PLACE. THE DISCUSSION THEN QUICKLY MOVED TO AN ATTACK ON EXCHANGE RATE FLUCTUATIONS. INTERVENTIONS BY THE EC, NORDICS, AND JAPAN STRESSED THE ADVERSE IMPACT ON TRADE OF EXCHANGE RATE VOLATILITY, AND CALLED FOR GREATER INTERNATIONAL COOPERATION TO SMOOTH OUT THE FLUCTUATIONS.

~~LIMITED OFFICIAL USE~~

4. THE EC REP MAINTAINED THAT FLUCTUATIONS IN EXCHANGE RATES DO HAVE AN IMPACT ON TRADE. THESE FLUCTUATIONS COULD NOT BE AVOIDED COMPLETELY, BUT THE PEAKS SHOULD BE REMOVED. HE OBSERVED THAT THERE IS NO INTERNATIONAL COOPERATION IN THE MONETARY FIELD TO TAKE CARE OF THIS PROBLEM.

5. THE JAPANESE REP STATED THAT EXCHANGE RATES SHOULD ADDRESS THE FUNDAMENTAL ECONOMIC SITUATION OF EACH COUNTRY, AND THERE COULD BE BETTER MANAGEMENT AND INTERNATIONAL COOPERATION WITHIN THE CONTEXT OF FLEXIBLE RATES. HE SAID THAT JAPAN WOULD GIVE MORE THOUGHT AS TO HOW THIS COOPERATION COULD TAKE PLACE.

6. THE US REP BEGAN BY NOTING THAT THE XCSS WAS SET UP EXPRESSLY TO DEAL WITH BROAD ISSUES SUCH AS THE INTERRELATIONSHIP OF MACRO ECONOMIC AND TRADE ISSUES. THEREFORE, XCSS AND THE EPC WOULD BE THE BEST FORA FOR DISCUSSING THE INTERRELATIONSHIP OUTLINED IN THE CHAIR'S LETTER; HE WAS LESS ENTHUSIASTIC ABOUT THE TC GIVING INDICATIONS OF WHICH AREAS OF MACRO ECONOMIC POLICY SHOULD TAKE ACCOUNT OF TRADE PROBLEMS. HE AGREED THAT TRADE POLICY OFFICIALS SHOULD BRING SPECIFIC PROBLEMS TO THE ATTENTION OF MACRO ECONOMIC POLICY MAKERS. HE GRANTED THERE IS SOME RELATION BETWEEN EXCHANGE RATES AND TRADE THROUGH THE EQUILIBRATING EFFECT OF EXCHANGE RATES ON TRADE. CITING AN OECD SECRETARIAT DOCUMENT "THE EFFECTS OF EXCHANGE RATE FLUCTUATIONS ON TRADE" (DES/IN(82)1), HE STATED THAT THE USG DOES NOT SHARE THE CONTENTION THAT EXCESSIVE VOLATILITY OF EXCHANGE RATES HAD A NEGATIVE EFFECT ON INTERNATIONAL TRADE FLOWS. HE EXPLAINED THAT THE USG DOES NOT HAVE AN EXCHANGE RATE POLICY TO ATTACK INFLATION BUT RATHER HAS AN OVERALL MACRO ECONOMIC POLICY WHICH IS DESIGNED TO FIGHT INFLATION AND WHICH MAY HAVE AN INDIRECT EFFECT ON EXCHANGE RATES. HE OPINED THAT IT WOULD BE INAPPROPRIATE TO SINGLE OUT ONE ASPECT OF MACRO POLICY FOR DISCUSSION.

7. SUPPORTING THE US, THE CANADIAN REP NOTED THAT EXCHANGE RATES MIRROR THE UNDERLYING ECONOMIC CONDITIONS OF COUNTRIES AND STRESSED THE EQUILIBRATING EFFECT ON TRADE OF EXCHANGE RATES. HE CITED A RECENT IMF PAPER (SM/81/210 OF NOVEMBER 2, 1981) WHICH REFUTES THE CONTENTION THAT VOLATILE EXCHANGE RATES SIGNIFICANTLY AFFECT TRADE FLOWS. ✓

EXPORT INCENTIVES (PARA 5)

8. ALL REPS INTERVENING (US, EC, CANADA, SWITZERLAND, NORDICS, AUSTRALIA AND JAPAN) SUPPORTED THE OBJECTIVE OF IMPROVING THE ARRANGEMENT ON EXPORT CREDITS, THOUGH THE EC REP STATED THAT COUNTRIES COULD READ WHAT THEY WANT INTO CHAIR'S PHRASING IN PARA 5. BOTH THE FINNS AND SWISS SAID THAT COUNTRY CLASSIFICATIONS UNDER THE CONSENSUS SHOULD BE BASED ON ECONOMIC, NOT POLITICAL CONSIDERATIONS.

9. CANADA AND THE EC REPS HAD PROBLEMS WITH THE RECOMMENDATION THAT THE TC UNDERTAKE WORK ON EXPORT INCENTIVES. THE CANADIAN REP REMINDED THE GROUP OF GATT ACTIVITIES AND AGREEMENTS IN THE FIELD OF EXPORT SUBSIDIES. EC REP SAID HE COULD AGREE TO DISCUSSION OF THE ISSUE, BUT DOUBTED THAT IT WOULD BE POSSIBLE TO STRENGTHEN INTERNATIONAL DISCIPLINES.

POSITIVE ADJUSTMENT (PARAS 6 AND 7)

10. DELEGATIONS GENERALLY SUPPORTED FOR THE WORK OF THE OECD GROUP ON POSITIVE ADJUSTMENT POLICIES. AS THE PAP GROUP IS CURRENTLY IN THE PROCESS OF WINDING UP ITS WORK, THERE WAS GENERAL AGREEMENT TO DISCUSS THIS ISSUE IN MORE DETAIL AFTER RECEIVING THE FINAL PAP REPORT.

11. THERE WAS SOME DISCUSSION OF THE NEED TO CONSIDER THE TRADE EFFECTS, IN ADDITION TO THE DOMESTIC EFFECTS, OF DOMESTIC ADJUSTMENT POLICIES. THE JAPANESE REP WANTED TO PUT MAIN EMPHASIS ON DOMESTIC EFFECTS. SEVERAL REPS, INCLUDING US, ALSO NOTED THAT THE WORK OF THE GATT SHOULD BE KEPT IN MIND. REFERRING TO THE SECRETARY GENERAL'S PAPER, THE US REP SAID THE USG WOULD PREFER THE OECD NOT ATTEMPT TO PROJECT TRENDS IN TRADE PATTERNS.

PROTECTION AND SUPPORT FOR DECLINING ACTIVITIES (PARAS 8-10)

12. THE SAFEGUARDS ASPECT OF THIS TDPIC WAS CONSIDERED A HIGH PRIORITY SUBJECT BY MOST DELS, BUT THERE WAS UNCERTAINTY AS TO WHERE THE ISSUE SHOULD BE DISCUSSED. US REP STRESSED THE IMPORTANCE OF REACHING AN AGREEMENT ON SAFEGUARDS ISSUE. IF THERE IS A DEADLOCK IN GENEVA, HE SUGGESTED, THE TC SHOULD BE CREATIVE AND COME UP WITH MORE INFORMAL, LESS STRUCTURED AND LESS LEGALISTIC ALTERNATIVES. THE EC REP URGED CAUTION BECAUSE OF THE PSYCHOLOGICAL EFFECTS OF TAKING UP SAFEGUARDS IN THE OECD. HE FEARED THE REACTIONS IF OECD DISCUSSED THE MATTER AND FAILED TO REACH AN AGREEMENT. JAPANESE REP AGREED ISSUE IS IMPORTANT BUT WAS APPREHENSIVE ABOUT DISCUSSING IT OUTSIDE THE GATT.

SUPPORT FOR PROMISING ACTIVITIES (PARAS 11-13)

13. THERE WAS A BROAD CONSENSUS IN THE GROUP THAT TC SHOULD STUDY FURTHER THE EFFECTS OF GOVERNMENT SUPPORT FOR HIGH TECHNOLOGY ACTIVITIES. US REP CALLED FOR TC TO LOOK AT TRADE IN HIGH TECHNOLOGY GOODS TO IDENTIFY DETERMINATES OF THE PATTERN OF THE TRADE AND EFFECTS OF GOVERNMENT INTERVENTION. IN HIS MOST LENGTHY INTERVENTION OF THE DAY, THE JAPANESE REP AGREED WITH THE STUDY BUT SAID IT HAD TO INCLUDE THE CONCEPT OF IMPLICIT AND EXPLICIT GOVERNMENT SUPPORT. HE CITED EUROPEAN SUPPORT OF THE AIRBUS AND USA CIVILIAN APPLICATION OF TECHNOLOGY GAINED THROUGH MILITARY AIRCRAFT CONTRACTS AS EXAMPLES OF THE IMPLICIT AND EXPLICIT GOVERNMENT SUPPORT PROBLEM HE WISHED INVESTIGATED. HIS GOVERNMENT VIEWS TECHNOLOGY AS A PUBLIC GOOD WHICH MERITS PUBLIC SUPPORT IF A GIVEN PROJECT IS PARTICULARLY MASSIVE, RISKY OR HAS A LONG LEAD TIME. THE EC REP NOTED TRADE FRICTIONS WHICH RESULTED WHEN ONE COUNTRY DEVELOPED A TECHNOLOGY AHEAD OF OTHERS AND OTHER GOVERNMENTS SUBSEQUENTLY HELPED THEIR INDUSTRIES TO CATCH UP. CANADA REP REQUESTED INCLUSION OF AID BEYOND DIRECT PAYMENTS SUCH AS TAX WRITE-OFFS.

DOMESTIC SUBSIDIES (PARAS 14-15)

14. THE TC GENERALLY HAD A WAIT AND SEE ATTITUDE ABOUT NEED FOR ADDITIONAL CONSULTATION PROCEDURES ON RULES; THE GATT CODE HAS BEEN INSUFFICIENTLY TESTED AS YET. SOME WISHED TC TO STUDY THE PROBLEM OF SUBSIDIES AS A PRIORITY MATTER. THE US REP DIVIDED THE SUBSIDIES TOPIC INTO TWO COMPONENTS: (1) ISSUES REVOLVING AROUND COMMERCIAL RELATIONS WHICH IS COVERED BY A GATT CODE; AND (2) ISSUES REVOLVING AROUND SUBSIDIES' EFFECTS ON ECONOMIC EFFICIENCY IN TERMS OF IMPACT ON THE INTERNAL ALLOCATION OF RESOURCES AND INTERNATIONAL TRADE. HE SAID THE TC SHOULD CONSIDER THE ECONOMIC EFFICIENCY LOSSES FROM SUBSIDARY PROGRAMS. SHOWING LITTLE ENTHUSIASM FOR THE TDPIC, THE EC REP SAID IT IS PREMATURE TO JUDGE THE ADEQUACY OF THE GATT CODE AND ITS PROCEDURES. HE DOUBTED THE OECD COULD DETERMINE OR QUANTIFY THE TRADE EFFECTS OF SUBSIDIES AS THAT IS A PARTICULARLY DIFFICULT FIELD. JAPAN SUPPORTED EC VIEWPOINT.

EXPORT CONTROLS AND ACCESS TO SUPPLIES (PARA 16)

15. MEMBERS OF THE TC AGREED THIS WAS A LONG TERM PROBLEM WHICH SHOULD REMAIN ON THE COMMITTEE AGENDA. THERE WAS SOME DIFFERENCE OF OPINION AS TO THE PRIORITY WHICH SHOULD BE ASCRIBED TO IT. THE US, CANADIAN AND AUSTRALIAN REPS BELIEVED THAT THIS IS NOT AN URGENT ISSUE. THE EC AND JAPANESE REPS SAID, WHILE NOT A MAJOR PROBLEM, THIS ISSUE SHOULD REMAIN IN THE AGENDA AS THEY ARE CONCERNED ABOUT STABLE SUPPLIES.

ENVIRONMENT (PARA 17)

16. FEW COMMENTS WERE MADE ON THIS TOPIC, WITH SPEAKERS REFERRING TO CONTINUED OPERATION OF THE GUIDING PRINCIPLES.

RESTRICTIVE BUSINESS PRACTICES (PARA 18)

17. THIS WAS CONSIDERED A LONG TERM, LOWER PRIORITY ITEM BY THE FEW SPEAKERS WHO ADDRESSED IT. THE US REP OBSERVED THAT EXPERT GROUP HAS PRIMARY RESPONSIBILITY IN THAT AREA, BUT IT MIGHT BE USEFUL FOR THE TC TO TAKE A LONG TERM VIEW OF THE TRADE ASPECT OF RBPS. OTHERS (NETHERLANDS, NORWAY) CAUTIONED THAT REP EXPERTS GROUP HAD PRIMARY RESPONSIBILITY FOR THIS ISSUE.

TRADE RELATED INVESTMENT ISSUES (PARA 19)

18. US REP, WHO WAS ONLY SPEAKER, SAID THAT USG CONSIDERS THIS TO BE A CRITICAL ISSUE OF HIGH PRIORITY. HE ASKED TC TO CONTINUE WORK ON THIS TOPIC IN CONJUNCTION WITH WORK UNDERWAY IN THE CIME AND IT WAS SO AGREED. HE STRESSED THIS IS A KEY ISSUE FOR THE GATT MINISTERIAL AGENDA. US REP ALSO POINTED TO INCREASING PRESSURES IN US TO ESTABLISH LOCAL CONTENT REQUIREMENTS.

DEVELOPING COUNTRIES (PARAS 20-22)

19. DISCUSSION OF UPCOMING GATT MINISTERIAL CENTERED PRIMARILY ON TOPICS WHICH MEMBERS THINK LDCS WILL RAISE AT THAT MEETING. US REP BEGAN DISCUSSION SAYING THAT DETAILED OECD DISCUSSION WOULD HAVE TO AWAIT G-77 PROPOSALS. THE DCS, HE SAID, SHOULD BE LOOKING FOR NEW IDEAS. HE SUGGESTED THAT THE OECD MIGHT CONSIDER INITIATING A DIRECT, INFORMAL DIALOGUE WITH THE NICs. THE EC REP STRESSED NEED TO WORK ON CONCEPT OF GRADUATION, DEVELOP A DIFFERENTIATED APPROACH WHICH WOULD GIVE MORE BENEFITS TO LDCS AND ENCOURAGE DEVELOPMENT OF TRADE AMONG LDCS. JAPANESE REP MERELY SAID OECD COUNTRIES SHOULD HAVE EXCHANGE OF VIEWS ON TOPIC PRIOR TO THE GATT MINISTERIAL. FRENCH REP NOTED THAT PAPER CONTAINED NO REFERENCE TO GLOBAL NEGOTIATIONS. DISCUSSION OF SOCIAL CLAUSE REFERRED TO IN PARA 22 FOLLOWED PREDICTABLE LINES WITH NORDICS IN FAVOR WHILE US, CANADA, JAPAN, UK EXPRESSED RESERVATIONS OF VARIOUS TYPES. US REP AGREED THAT THERE IS A NEED TO AVOID USE OF SOCIAL CLAUSE FOR PROTECTIONIST PURPOSES, BUT UNDERLINED THE USEFULNESS OF THE ILO WORK AND THE NEED TO TELL LDCS THAT CONTINUED SOCIAL PROGRESS IN THEIR COUNTRIES MAKE IT EASIER FOR DCS TO MANAGE LABOR UNIONS' PRESSURES FOR IMPORT RESTRICTIONS. THE CHAIR CHARACTERIZED THIS AS A HIGHLY CONTRAVERSIAL TOPIC WHICH INCLUDED ECONOMIC, MORAL AND POLITICAL QUESTIONS.

CENTRALLY PLANNED ECONOMIES (PARA 23)

20. DISCUSSION SHOWED AGREEMENT ON NEED FOR CONCERTED ACTION ON EXPORT CREDITS TO BE TAKEN BY EXPERTS, BUT DOUBTS WERE EXPRESSED ABOUT POSSIBILITY OF CONCERTED ACTION ON COUNTERTRADE. CONCERN WAS EXPRESSED BY SEVERAL REPS ON SPREAD OF COUNTERTRADE PRACTICES TO LDCS. US REP SAID THAT IN THE ABSENCE OF

A COMMON VIEW ON WESTERN APPROACH TO COUNTERTRADE MATTERS, TC SHOULD SEEK POLICY GUIDANCE FROM MINISTERS. HE NOTED THAT DIVERGENCE OF VIEWS LEFT OECD COUNTRIES OPEN TO EXPLOITATION BY EASTERN EUROPEAN (EE) COUNTRIES. IN THE MEANTIME, THE EXPERTS GROUP SHOULD CONTINUE WORK ON EXPORT CREDITS AND THE TC/WP SHOULD CONTINUE WORK ON COUNTERTRADE. EC REP NOTED THAT IT IS NOT REALISTIC TO EXPECT INTEGRATION OF EE COUNTRIES INTO THE INTERNATIONAL TRADING SYSTEM TO PROGRESS FURTHER, GIVEN THE RECORD TO DATE OF FAILURE ON TRUE RECIPROCITY. WORK IN OECD ON COUNTERTRADE AND DEBT SHOULD CONTINUE BUT, HE OBSERVED, USEFUL WORK IS PROGRESSING ON THESE TOPICS IN OTHER FORA.

AGRICULTURE (PARA 24)

21. TC COMBINED DISCUSSION OF PARA 24 AND THE STUDY ON PROBLEMS OF AGRICULTURE TRADE (AGR(82)4/TC(82)3) JUST COMPLETED BY THE JOINT TRADE AND AGRICULTURE COMMITTEE. AFTER ONE TRIVIAL COMMENT BY JAPANESE THE TC APPROVED THE STUDY AS PRESENTED. FOLLOWING APPROVAL, THE US REP INTERVENED SAYING THAT THIS USEFUL REPORT DESERVES WIDE DISTRIBUTION. IT DEMONSTRATES THAT THE PURSUIT OF AGRICULTURAL POLICY OBJECTIVES NEED NOT BE INCOMPATIBLE WITH THE GOAL OF IMPROVING THE FUNCTIONING OF INTERNATIONAL MARKETS. HE ADDED THAT USG BELIEVES APPROPRIATE FOLLOW-UP SHOULD TAKE PLACE IN BOTH AGRICULTURE AND TRADE COMMITTEES. EC REP AGREED THAT FOLLOW-UP SHOULD OCCUR IN BOTH COMMITTEES. SIMILAR WORK IS BEING UNDERTAKEN IN THE GATT. TO IMPROVE THE RULES, HE SAID, ONE HAD TO CONSIDER WHO AND WHAT ARE OUTSIDE THE CURRENT STRUCTURE. HE CAUTIONED THAT THE PROBLEM OF AGRICULTURAL ADJUSTMENT IS A DIFFICULT LONG TERM ONE WHICH SHOULD BE LOOKED AT CAREFULLY. HE CONCLUDED THAT THE SECTOR REQUIRES A CONCERTED MULTILATERAL APPROACH WHICH REDUCES PROTECTIONISM AND INCREASES TRADE LIBERALIZATION. AUSTRALIA, NEW ZEALAND AND CANADA ALL PRAISED REPORT AND CALLED FOR FOLLOW-UP. THE CHAIR WELCOMED AGREEMENT ON THE REPORT AND CONFIRMED A CONSENSUS ON FOLLOW-UP BUT WITH SOME DISAGREEMENT ON WHERE AND HOW. TOPIC WILL BE LEFT ON THE AGENDA OF THE TC. MINISTERS WILL BE REQUESTED TO EXPRESS THEIR VIEWS. MISSION COMMENT: GUIDANCE WILL BE REQUIRED ON USG VIEWS ON FOLLOW-UP. END COMMENT.

FISHERIES (PARA 25)

22. TC AGREED TO RETAIN THE FISHERIES TOPIC FOR FUTURE WORK ALTHOUGH THE COMMITTEE ON FISHERIES WOULD OBVIOUSLY HAVE FIRST RESPONSIBILITY. IN RARE APPEARANCE AT TC, ICELANDIC REP CALLED FOR LIBERALIZATION OF TRADE AND REDUCTION OF SUBSIDIES IN THE SECTOR. CANADIAN, NORWEGIAN AND US REPS SUPPORTED THIS POSITION. EC REP POINTED OUT FISHERY AGREEMENTS PREDATE 200 MILE LIMIT AND ADJUSTMENT WOULD HAVE TO TAKE PLACE TO COMPENSATE FOR THIS LIMITATION.

PRIMARY COMMODITIES (PARA 26)

23. TC AGREED ON NEED FOR FURTHER WORK ON COMMODITIES WITH VARIETY OF SUGGESTIONS FOR TOPICS TO STRESS. ~~US REP SUPPORTED SUMMARY OF WORK PRESENTED IN~~ PARA 26. EC REP REQUESTED WORK ON PRICING POLICIES, PARTICULARLY DUAL PRICING. HE WAS ALSO INTERESTED IN EXPORT BARRIERS. AUSTRALIAN REP WANTED MORE ATTENTION ON OBTAINING BETTER DEMAND FORECASTS WHICH HE CLASSIFIED AS TRADE ISSUE. TO SWEDISH REP THE ISSUE IS IMPORTANT IN REGARD TO LDC NEGOTIATIONS, WITH MORE WORK NEEDED ON TARIFF ESCALATION AND EXPORT INCOME STABILIZATION FOR THAT PURPOSE.

TRADE IN SERVICES (PARA 27)

24. TRADE COMMITTEE WORKING PARTY (TC/WP) CHAIRMAN (STAHNKE) REPORTED ON RECENT WP ACTIVITIES IN FIELD OF TRADE IN SERVICES. HE NOTED THE THREE PAPERS ON OBSTACLES IN THE CONSTRUCTION, ENGINEERING AND

CONSULTANCY SERVICES SECTOR ALREADY REVIEWED AND INDICATED THERE WILL BE SIX MORE TO CONSIDER BEFORE THE EXERCISE IS COMPLETED PROBABLY THIS FALL. HE POINTED OUT THAT SECRETARIAT IS PREPARING INFORMAL AIDE MEMOIRES OF THESE WP SESSIONS RATHER THAN REDRAFTING PAPERS. HE NOTED THAT THERE IS SOME UNCERTAINTY ABOUT WHERE THE WP IS HEADED IN THESE EXAMINATIONS AND THAT THERE ARE NUANCED VIEWS WITHIN WP ON HOW FAR THE EXAMINATION CAN PROGRESS WITHOUT IMPINGING ON THE NEXT PHASE OF WORK. RELATIVE WEIGHTS WILL HAVE TO BE ASSIGNED TO OBSTACLES. THE SECRETARIAT HAS ESTABLISHED INFORMAL CONTACT WITH OTHER COMMITTEES, EG. RESTRICTIVE BUSINESS PRACTICES AND EXPDRT CREDITS, HE SAID, TO OBTAIN ADDITIONAL INFORMATION. HE CONCLUDED THAT HE IS PLEASED AND ENCOURAGED BY THE IMPROVED PARTICIPATION OF DELEGATIONS IN THESE DISCUSSIONS WHICH ARE PROCEEDING AT A MEASURED PACE.

25. THE US REP DESIGNATED THIS TOPIC A HIGH PRIORITY DNE FOR THE USG. USG FINDS WP WORK USEFUL AND HOPES THAT IT WILL CONTINUE. HE SAID WP SHOULD ACQUIRE ALL ADDITIONAL INFORMATION NEEDED TO CDMPLTE A FULL ANALYSIS OF AGREED SECTORS. THE EC REP NDTED THAT IT TAKES TIME FOR GOVERNMENTS TO DEVELOP PEDPLE WHD ARE COMPETENT IN THIS AREA. HE APPROVED THE WP'S APPRDACH AND HDPED THE BIAC PAPER WOULD CONTRIBUTE TO THE WP'S EVALUATION WORK. HE ALSO NOTED THERE IS NO ACCEPTED DEFINITION OF THE TERM "OBSTACLES" TO TRADE IN SERVICES. THE CHAIR SUMMED UP THIS PART DF THE DISCUSSION SAYING THAT TC AND TC/WP WERE PROCEEDING ON THIS PROJECT AT A MEASURED PACE. THE TC LOOKS FORWARD TD A SUBSTANTIVE DISCUSSION CN THE SECTOR IN THE FALL. THE CHAIR IS READY TO HELP THE WP OBTAIN THE FULLEST POSSIBLE COOPERATION FROM OTHER COMMITTEES DF THE OECD.

26. REGARDING QUESTIONS CCNTAINED IN PARA 27 OF THE CHAIR'S LETTER, US REP SAID USG BELIEVES IT IS TIME TO EXPOSE LDCS TO TRADE IN SERVICES ISSUES SO THAT WHEN CONCRETE STEPS ARE TAKEN TOWARD LIBERALIZATION LDCS DO NDT FEEL THEY ARE BEING PRESENTED WITH A FAIT ACCOMPLI. THE US EXPECTS THE WORK IN THE GATT TO PRDCEED MORE SLOWLY THAN THAT IN THE OECD; WE HOPE GATT MINISTERIAL WILL AGREE TC ESTABLISH A WORK PROGRAM ON THIS TOPIC. THE USG IS NOT ASSERTING THAT EXISTING GATT RULES APPLY TO ALL SERVICES SECTORS, RATHER IT IS ASKING FOR AN INVESTIGATION TO DETERMINE A DESIRABLE FRAMEWORK FOR SERVICES.

AT THE OECD MINISTERIAL THE USG WOULD LIKE MINISTERS TC EXTEND THEIR POLITICAL COMMITMENT IN LIGHT CF THE PROGRESS MADE BY THE TC AND THE NEED FOR FURTHER GUIDANCE. HE ALSO STRESSED THE HIGH PRIORITY WHICH THE USG ASSIGNS TC INCLUSION OF SERVICES DN GATT MINISTERIAL AGENDA. US OBJECTIVES ARE TO OBTAIN POLITICAL GUIDANCE FROM MINISTERS ON IMPORTANCE OF THE TOPIC AND ESTABLISHMENT OF WORK PROGRAM. FINALLY, US REP PROPOSED THAT THE DATA PROCESSING AND INFORMATION SERVICES SECTOR BE ADDED TO OECD SERVICES EXERCISE AS A PRIORITY SECTOR. HE EXPLAINED THAT IT COULD BE THE MOST CRITICAL SERVICES SECTOR DURING THE NEXT DECADE AND THAT THE ICCP WAS ALREADY DOING WORK ON THE TOPIC.

27. THE EC REP SAID THAT ASSOCIATING LDCS WITH THIS EXERCISE WAS A DELICATE OPERATION; IT WOULD BE ESPECIALLY DIFFICULT SINCE TRADE IN SERVICES IS OUTSIDE EXISTING GATT RULES. MENTION OF SERVICES AT THE OECD MINISTERIAL IS INEVITABLE, HE ESTIMATED, BUT A STRDNG STATEMENT WOULD BE INAPPROPRIATE SINCE THE WP WILL NOT COMPLETE ITS WCRK UNTIL FALL. REGARDING THE ADDITION OF DATA PROCESSING AND INFORMATION SERVICES AS A PRIDRITY SECTDR, HE QUESTIONED URGENCY FOR THE TC OR ITS WP TO CCNSIDER THE TOPIC.

28. JAPAN REP SAID THAT IF THE SERVICE ISSUE IS TO BE RAISED AT THE GATT MINISTERIAL, OECD COUNTRIES WILL HAVE TO HAVE A COMMON PERCEPTION OF ISSUES DEVELOPED AT

THE OECD. HE SAID STUDY IS NECESSARY ON THE APPROACH TO SERVICES AT THE OECD MINISTERIAL. HE AGREED THAT DATA PROCESSING AND OTHER IMPORTANT SECTORS SHOULD BE CONSIDERED IN THIS EXERCISE.

29. MOST REPS THOUGHT THE ISSUE OF TRADE IN SERVICES SHOULD BE BROUGHT TO THE ATTENTION OF THE LDCS IN AN APPROPRIATE MANNER. DCS HAD TO AVOID PRESENTING THEM WITH A FAIT ACCOMPLI. IT WAS AGREED THAT THE SUBJECT WILL HAVE TO BE RAISED AT THE OECD MINISTERIAL, BUT THERE WERE DIFFERENT VIEWS ON HOW STRONG A STATEMENT COULD RESULT. THIS MATTER WILL BE DISCUSSED AT THE NEXT TC. MANY REPS AGREED THAT THE DATA PROCESSING AND INFORMATION SERVICES SECTOR SHOULD BE ADDED TO SERVICE WORK PROGRAM WITH ICCP CONTINUING ITS WORK AND TC/WP FAMILIARIZING ITSELF WITH TOPIC.

THE PROCESS OF INTERNATIONAL TRADE COOPERATION (PARA 2E-30)

30. THE DISCUSSION SHOWED LITTLE ENTHUSIASM FOR MOBILIZING COUNTERVAILING FORCES ALTHOUGH SWEDISH REP SAID THE TC SHOULD STUDY FURTHER HOW TO INTEGRATE OTHER INTERESTS INTO THE MULTILATERAL PROCESS. REGARDING CONSULTATIONS AND THE DISPUTE SETTLEMENT PROCESS THERE WAS STRONG SUPPORT FOR THIS MECHANISM BUT WITH A WARNING FROM ONE DEL THAT IT IS DANGEROUS TO OVERLOAD THE SYSTEM. IT MAY SOMETIMES BE ADVISABLE TO SETTLE DISPUTES OUTSIDE THE SYSTEM. AT NEXT MEETING TC WILL DISCUSS THE POSSIBILITY OF USING NON-FORMAL CONSULTATIONS TO PROTECT THE FORMAL CONSULTATION PROCESS.

31. THE US REP SAID THE USG SUPPORTED CHAIR'S LETTER SECTION III, IV AND V OF PARA 30 REGARDING STRENGTHENING THE CONSULTATION PROCEDURE WHICH WOULD ENHANCE THE CREDIBILITY OF THE INTERNATIONAL TRADING SYSTEM. HE SAID THE USG IS CONCERNED ABOUT THE CONCEPT OF COUNTERVAILING POWERS WHICH APPEARS IN THE TRADE PAPER. WHILE WE BELIEVE IN AN OPEN SYSTEM WITH INFORMATION ON THE COST OF IMPORT RESTRICTIONS READILY AVAILABLE, THE USG DOES NOT THINK THAT INJECTING NEW PLAYERS INTO THE MULTILATERAL PROCESS IS THE BEST WAY TO ACHIEVE THESE GOALS.

32. IN TODAY'S INTERNATIONAL TRADING SYSTEM WHICH IS LESS UNITARY THAN IT WAS FORMERLY, THE EC REP SAID, THE RULES OF THE 1950S MAY BE AN INHIBITING STRAIT JACKET. HE CAUTIONED THAT THE DISPUTE SETTLEMENT MECHANISM DEvised IN TOKYO ROUND IS A DELICATE ONE WHICH MAY BREAK DOWN IF IT IS USED TOO MUCH. HE SHARED THE US RESERVATION ABOUT THE COUNTERVAILING FORCES CONCEPT.

33. THE JAPANESE REP SAID HE FAVORED IMPROVING CONSULTATION PROCEDURES ESPECIALLY "INTERDISCIPLINARY" CONSULTATIONS SUCH AS THOSE HELD AT THE OECD.

TRADE RELATIONS WITH DEVELOPING COUNTRIES

34. CHAIRMAN OF THE TC/WP REPORTED ON THE RESULTS OF WP PREPARATION FOR THE 24TH TDB MEETING AND CONSIDERATION OF THE FIGUEREDO STATEMENT ON TRADE AND A PRELIMINARY DISCUSSION OF THE GRADUATION ISSUE. THERE WERE NO COMMENTS ON HIS REPORT. THE SECRETARIAT'S REPORT ON THE GROUP ON PREFERENCES ALSO ELICITED NO COMMENTS.

CHANGES IN TRADE POLICIES AND PROCEDURES

35. NO COMMENTS WERE MADE ON NOTIFICATIONS.

OTHER BUSINESS

36. THE SECRETARIAT TRANSMITTED THE COMMITTEE ON CONSUMER POLICY'S REQUEST TO HAVE THEIR STUDY ON EXPORT NOTIFICATIONS FOR HAZARDOUS PRODUCTS REVIEWED BY THE TC. TC AGREED TO AUTHORIZE THE WP TO REVIEW THE STUDY ON BEHALF OF TC TO ASSURE A REACTION ON TRADE ASPECTS OF THE DOCUMENT BEFORE THE CCP'S JUNE MEETING.

37. SECRETARIAT NOTED ARRIVAL OF EC PAPER "VARIABLE EXCHANGE RATES AND TRADE" (TC(82)5) AS CONTRIBUTION TO THE TC WORK BEGAN IN 1980 ON IMPORTANT DEVELOPMENTS IN THE FIELD OF TRADE POLICY. TC INSTRUCTED WP TO DISCUSS PAPER AND REPORT TO THE COMMITTEE.

38. SECRETARIAT RECOUNTED REASONS FOR DELAY OF INFORMAL DISCUSSIONS WITH YUGOSLAVIA UNTIL APRIL TC MEETING. CHAIR REQUESTED ALL DELEGATIONS TO SUBMIT THEIR QUESTIONS BY MID-MARCH SO THAT SECRETARIAT CAN COMPILE ANNDTATED LIST OF QUESTIONS. QUESTIONS WILL NOT BE ATTRIBUTED TO SPECIFIC COUNTRIES.

39. DATE OF NEXT MEETING WAS SET FOR APRIL 15-16, 1982. THE SECRETARY GENERAL'S PAPER AND THE SYNTHESIS PAPER ON TRADE ISSUES IN THE 1980S WILL NOT BE AVAILABLE UNTIL IMMEDIATELY BEFORE THE MEETING.

KATZ
FT
#8136

NNNN



LIMITED OFFICIAL USE

ACTIONE
ECON-4
INFO
AMB
DCM
POL
LAB
POLA
EMIN
FCS
FIN
AGR
SCI
ICA
P-4
FJ
21

VZCZCTK0222
PP RUEHKO
DE RUFHFR #8141/01 0642107
ZNY CCCCC ZZH
P 052049Z MAR 82
FM AMEMBASSY PARIS
TC RUEHC/SECSTATE WASHDC PRIORITY 1216
RUEHDC/USDCC WASHDC PRIORITY
RUEATRS/DEPARTMENT OF TREASURY WASHDC PRIORITY
INFO RUFHGV/USMISSION GENEVA 8555
RUFHOO/ALL OECD CAPITALS
BT
LIMITED OFFICIAL USE PARIS 08141

'82 MAR 06 AM 142

USOECD

PASS USTR

E.O. 12065: N/A
TAGS: OECD, ETRD
SUBJECT: OECD TRADE COMMITTEE CHAIR'S DRAFT SUMMARY
-- OF TRADE COMMITTEE DISCUSSION OF TRADE ISSUES
-- IN 1980'S PAPER

DECLASSIFIED
NLRR 007-081 #51079
BY CU NARA DATE 4/20/10

51079

1. THERE FOLLOWS THE TEXTS OF THE TRADE COMMITTEE (TC) CHAIR'S DRAFT SUMMARY OF THE TC DISCUSSION OF TRADE ISSUES IN THE 1980S AND A SECRETARIAT COVERING TRANSMITTAL LETTER. AS MENTIONED IN THE LETTER DELEGATIDNS' OBSERVATIONS ARE DUE MARCH 15. MISSION WILL SUBMIT TO WASHINGTON SUGGESTED CDMMMENTS ASAP.

2. BEGIN TEXT OF LETTER:

SIR,

IN ACCORDANCE WITH THE DECISION TAKEN ON 3RD MARCH AFTER THE TRADE COMMITTEE'S DISCUSSION OF THE "ISSUES TO BE ADDRESSED IN THE TRADE FIELD IN THE 1980S", PLEASE FIND ENCLOSED THE CHAIRMAN'S SUMMING UP OF THE DEBATE.

IF YOUR DELEGATION WISHES TO COMMENT ON THIS TEXT, SUCH OBSERVATIONS SHOULD REACH THE SECRETARIAT AT THE LATEST BY 15TH MARCH.

THE SUMMING UP, REVIEWED IN THE LIGHT OF ANY ADDITIONAL OBSERVATIONS RECEIVED, WILL FORM THE BASIS OF THE CHAIRMAN'S REPORT ON THE TRADE COMMITTEE'S SECRETARY-GENERAL BEFORE THE END OF MARCH.

ACCEPT, SIR, THE ASSURANCES OF MY HIGHEST CONSIDERATION.

/S/ E. POINCILIT, DIRECTOR FOR TRADE, OECD
END TEXT OF LETTER.

3. BEGIN TEXT OF DOCUMENT:

ISSUES TO BE ADDRESSED IN THE TRADE FIELD
IN THE 1980S

SUMMING-UP OF THE CHAIRMAN OF THE TRADE COMMITTEE'S DISCUSSION AT ITS 63RD SESSION

(I). GENERAL DISCUSSION

(1). A FEW GENERAL LINES OF THOUGHT WHICH EMERGED FROM THE DISCUSSION MERIT TO BE UNDERLINED FROM THE OUTSET, NAMELY;

AT THE BEGINNING OF THE 80S OUR COUNTRIES ARE CONFRONTED WITH SERIOUS ECONOMIC DIFFICULTIES WHICH NEED TO BE OVERCOME THROUGH APPROPRIATE MACRO-ECONOMIC POLICIES AND STRUCTURAL ADJUSTMENT AIMING AT A RETURN TO HIGHER ECONOMIC GROWTH.

-
- INTERNATIONAL TRADE IS AN IMPORTANT COMPONENT OF THE WORLD ECONOMY. THE OPEN AND MULTILATERAL TRADING SYSTEM IS SUPPORTIVE OF THE MACRO-ECONOMIC OBJECTIVES.

-
- IN THE PRESENT SITUATION IT IS NECESSARY THAT MEMBER COUNTRIES STRENGTHEN MULTILATERAL TRADE DISCIPLINE AND REINFORCE THEIR ECONOMIC AND TRADE CO-OPERATION IN THE FRAMEWORK OF OECD AND GATT.

-
- THESE INSTITUTIONS NEED TO EVOLVE AND ADAPT TO THE CHALLENGES AND OPPORTUNITIES OF THE 80S.

(2). THERE WAS GENERAL AGREEMENT THAT THE NOTE BY THE SECRETARY GENERAL INCLUDES ALL THE ISSUES TO BE ADDRESSED IN THE 80S. A DISTINCTION MUST HOWEVER BE MADE BETWEEN SHORT TERM ISSUES OR THOSE ON WHICH A CONSENSUS CAN BE REACHED IN THE RATHER SHORT TERM ON THE ONE HAND AND THOSE WHICH ARE OF A LONGER TERM CHARACTER AND ON WHICH FURTHER REFLECTION IS NEEDED. THE DISCUSSIONS SHOULD ALSO CONTRIBUTE IN THE COMING MONTHS TO PREPARE A CONSENSUS FOR THE GATT MINISTERIAL MEETING, WHILE TAKING INTO ACCOUNT THAT OECD COUNTRIES SHOULD NOT GIVE THE IMPRESSION OF PREJUDGING THE ISSUES.

(II). INTERRELATIONS BETWEEN MACRO-ECONOMIC AND TRADE POLICIES

(3). THE COMMITTEE CONCURRED IN THE VIEW THAT THESE INTERRELATIONS WERE, ESPECIALLY IN PRESENT CIRCUMSTANCES, OF GREAT IMPORTANCE. THERE WAS AGREEMENT THAT THOSE RESPONSIBLE FOR BOTH MACRO-ECONOMIC AND TRADE POLICIES SHOULD GIVE MORE ATTENTION TO THESE LINKS.

(4). CONCERNING MACRO-ECONOMIC POLICIES, THE POINT WAS MADE THAT THE MAIN ISSUE WAS WHETHER MACRO-ECONOMIC POLICIES BEING FOLLOWED ARE CONDUCTIVE TO RESTORING CONDITIONS FOR SUSTAINED GROWTH. IT WAS ALSO INDICATED BY SOME THAT THE AREAS OF MACRO-ECONOMIC POLICIES WHICH CAN TAKE TRADE PROBLEMS INTO CONSIDERATION MAY BE LIMITED. IN THIS RESPECT THE DISCUSSION FOCUSED ON THE ISSUE OF EXCHANGE RATES ALTHOUGH IT WAS NOTED THAT THE POLICY MIX WAS RELEVANT TO THIS ISSUE. THE COMPLEXITY OF THE MATTER WAS STRESSED, IN PARTICULAR IN VIEW OF THE DIFFERENCES IN THE SPEED OF EFFECTS OF EXCHANGE RATE CHANGES, AND THE DIFFERENCES AS AMONGST COUNTRIES. THERE APPEARED TO BE SIGNIFICANT DIVERGENCES OF VIEWS FIRST ON THE IMPACT OF EXCHANGE RATE MOVEMENTS ON TRADE, AND IN PARTICULAR THE SIZE OF DISTORTIONS; SECONDLY AND CONSEQUENTLY ON THE NEED AND POSSIBILITY TO IMPROVE THE SITUATION. A NUMBER OF COUNTRIES CONSIDER THAT THERE IS A NEED FOR IMPROVED CO-OPERATION IN THIS FIELD TO TRY TO MODERATE ERRATIC FLUCTUATIONS IN EXCHANGE RATES AND BRING ABOUT MORE PREDICTABILITY. OTHERS FELT THAT THE DISTORTING EFFECTS WERE NOT PRESENTLY SUCH AS TO JUSTIFY INTERVENTION.

(5). AS TO THE TRADE POLICY SIDE, THERE IS A WELL ESTABLISHED CONSENSUS ON THE MAJOR CONTRIBUTION THAT THE MAINTENANCE OF LIBERAL TRADE CAN MAKE TO THE MACRO-ECONOMIC OBJECTIVE IN PARTICULAR OF RESTORING SUSTAINED GROWTH. IN THIS RESPECT ONE DELEGATION SUGGESTED THAT CONSIDERATION SHOULD BE GIVEN TO REDUCTION OF PROTECTION. SOME DELEGATIONS EXPLICITLY SUPPORTED THE IDEA THAT THE COSTS OF PROTECTIVE MEASURES FOR TAXPAYERS AND CONSUMERS SHOULD BE BROUGHT OUT MORE CLEARLY IN PARTICULAR TO THE ATTENTION OF THE PUBLIC. THE SUGGESTION WAS MADE THAT THE OECD OR OTHER INTERNATIONAL ORGANISATIONS SHOULD CONTRIBUTE TO THIS EFFORT.

(6). THE DISCUSSION ALSO BORE ON THE ISSUE OF WHAT ARRANGEMENTS MIGHT BE NECESSARY TO ENSURE THAT THE INTERRELATIONS ARE PROPERLY AND REALISTICALLY TAKEN INTO CONSIDERATION. THOUGH IT APPEARED THAT FURTHER REFLECTION AND DISCUSSIONS WOULD BE NECESSARY A NUMBER OF IDEAS WERE PUT FORWARD. THESE INCLUDED THE RESPECTIVE ROLE FOR THE EPC, THE TRADE COMMITTEE, AND THE EXCSS IN THE DISCUSSION OF THE PRACTICAL LINKS; JOINT MEETINGS OR CONTACTS WHEN APPROPRIATE BETWEEN THOSE RESPONSIBLE FOR TRADE POLICIES AND FOR MACRO-ECONOMIC POLICIES, AND OTHER AVENUES FOR COMMUNICATION BETWEEN THESE TWO SIDES WITHIN THE OECD. ON A BROADER BASIS THE RELATIONSHIP BETWEEN IMF AND GATT WAS RECOGNISED BY SOME AS DESERVING CLOSER CONSIDERATION.

(III). SPECIFIC ISSUES

EXPORT INCENTIVES

(7). SEVERAL DELEGATIONS STRESSED THE HIGH PRIORITY THEY ATTACH TO THE EXPORT CREDIT ISSUE. ALL DELEGATIONS SUPPORTED THE PRESENT EXERCISE AIMING AT CONTINUING AND IMPROVING THE ARRANGEMENT ON EXPORT CREDITS. WHILE A NUMBER ALREADY GAVE INDICATIONS AS TO THE MORE PRECISE OBJECTIVES OF THAT WORK, OTHERS FELT THAT IT SHOULD BE LEFT TO THE EXPERTS TO SEE WHAT COULD BE ACHIEVED. THE POINT WAS MADE BY SOME DELEGATIONS THAT ACTION IN OTHER ASPECTS OF EXPORT FINANCING ESPECIALLY UNDER DEVELOPMENT AID SHOULD ALSO BE CONSIDERED.

(8). THERE ALSO APPEARED TO BE AGREEMENT THAT AN INVESTIGATION OF VARIOUS DEVICES USED TO PROVIDE EXPORT INCENTIVES SHOULD OR MIGHT BE UNDERTAKEN. SOME DELEGATIONS WOULD HOWEVER NOT PREJUDGE WHETHER THE AIM SHOULD BE TO STRENGTHEN EXISTING INTERNATIONAL PROVISIONS IN THIS FIELD.

POSITIVE ADJUSTMENT POLICIES

(9). THE IMPORTANCE OF THE POSITIVE ADJUSTMENT POLICIES FROM THE POINT OF VIEW OF DOMESTIC POLICIES AND OF INTERNATIONAL TRADE HAS GENERALLY BEEN REITERATED. CONCERNING THE FOLLOW-UP TO THE WORK BY THE SPECIAL GROUP, IT WAS NOTED THAT THE QUESTION WAS TO SEE HOW IT COULD CONTRIBUTE TO ENSURE THE IMPLEMENTATION OF POSITIVE ADJUSTMENT POLICIES IN MEMBER COUNTRIES. SOME DELEGATIONS THOUGHT THAT EMPHASIS SHOULD BE PUT ON THE BENEFIT FOR THE DOMESTIC ECONOMY WHILE OTHERS FELT THAT MORE CONSIDERATION SHOULD ALSO BE GIVEN TO TRADE EFFECTS OF ADJUSTMENT POLICIES. ATTENTION WAS DRAWN TO GATT ACTIVITIES IN THIS FIELD, AND THE NEED TO AVOID DUPLICATION OF WORK. A SUGGESTION WAS MADE IN THIS RESPECT TO SEE WHAT LESSONS DRAWN FROM THE OECD WORK COULD ALSO BE USEFUL FOR THE GATT. ONE DELEGATION SUPPORTED THE SUGGESTION THAT ADJUSTMENT PROBLEMS AND POLICIES SHOULD BE EXAMINED IN THE COURSE OF EXAMINATION OF OR CONSULTATION ON SPECIFIC TRADE PROBLEMS. THE TRADE COMMITTEE, HOWEVER, AGREED THAT IT SHOULD REVERT TO THE QUESTION OF ITS OWN ACTIVITIES IN THIS INTERRELATION ON THE BASIS OF THE RESULTS OF DELIBERATIONS IN THE GROUP ON POSITIVE ADJUSTMENT POLICIES.

PROTECTION AND SUPPORT FOR DECLINING ACTIVITIES

(10). A LARGE NUMBER OF DELEGATIONS STRESSED THE HIGH PRIORITY OF THE SAFEGUARD ISSUE IN PARTICULAR IN VIEW OF THE GATT MINISTERIAL MEETING AND OF THE IMPORTANCE OF THE ISSUE FOR DEVELOPING COUNTRIES. SEVERAL DELEGATIONS HAVE STRESSED THE NEED TO REACH A SOLUTION IN THIS FIELD, IN VIEW OF THE DANGER OF THE PRESENT SITUATION. SOME MEMBERS FELT THAT NEW FORMS OF PROTECTION SUCH AS VERS AND OMAS SHOULD BE SUBJECTED TO INTERNATIONAL DISCIPLINES. SOME DELEGATIONS ALSO

INDICATED THAT IF NO FULLY FLEDGED SOLUTIONS COULD BE REACHED AT THE TIME OF THE MINISTERIAL MEETING IN GATT, IT WOULD BE DESIRABLE TO REACH SOME KIND OF AGREEMENT IN ORDER FOR INSTANCE TO INCREASE TRANSPARENCY AND TO BRING VARIOUS DEVICES INTO THE MULTILATERAL FRAMEWORK. SOME ALSO WOULD BE PREPARED TO CONSIDER SOME FORM OF COMMITMENT (OR DECLARATION) OF A LESS LEGAL CHARACTER.

(11). THERE WERE HOWEVER DIFFERENCES OF VIEWS AS TO THE USEFULNESS OR APPROPRIATENESS OF FURTHER EXCHANGE OF VIEWS AMONG MEMBER COUNTRIES IN THE TRADE COMMITTEE. SOME DELEGATIONS WERE IN FAVOUR OF SUCH EXCHANGE OF VIEWS NOT NECESSARILY TO DRAW UP SOLUTIONS BUT TO IDENTIFY PROBLEMS AND OPTIONS. OTHERS HAD DIFFERENT OPINIONS IN VIEW OF THE SENSITIVITY OF THE ISSUE FOR DEVELOPING COUNTRIES OR ALSO BECAUSE POSITIONS HAD NOT CHANGED AND NO NEW IDEAS HAD BEEN PUT FORWARD. ONE DELEGATION FELT THAT, IF NO SOLUTION COULD BE FOUND IN GENEVA, IT MIGHT PERHAPS BE WORTH IT TO REAPPRAISE THE ISSUE AND THE LOCUS FOR DISCUSSION.

(12). SOME DELEGATIONS STRESSED THAT BEYOND LEGAL RIGHTS AND OBLIGATIONS, THE REAL ECONOMIC ISSUE WAS HOW TO AVOID PROTECTIVE AND DISTORTING MEASURES IN GENERAL. BETTER ASSESSMENT OF THE FULL COST OF THESE MEASURES AND INFORMATION OF THE PUBLIC OPINION IN THIS RESPECT AS WELL AS FULLER USE OF CONSULTATIONS WERE REFERRED TO. ONE DELEGATION WONDERED WHETHER CRITERIA TO LIMIT AIDS TO AILING INDUSTRIES MIGHT NOT BE ENVISAGED. ANOTHER DELEGATION FELT THAT IN OECD THE ISSUE OF REDUCTION OR ELIMINATION OF ALL KINDS OF PROTECTIVE DEVICES FOR DECLINING ACTIVITIES SHOULD BE DISCUSSED IN TERMS OF ECONOMIC DISCIPLINE.

SUPPORT FOR PROMISING ACTIVITIES

(13). THE DISCUSSION SHOWED THE COMPLEXITY OF THE ISSUE OF GOVERNMENT SUPPORT FOR NEW ACTIVITIES. THERE SHOULD BE CAUTION NOT TO PUT TOO MUCH EMPHASIS ON THE POSSIBLE DISTORTING EFFECTS ON TRADE OF SUPPORT TO THESE INDUSTRIES AND THE POINT WAS MADE THAT GOVERNMENT MAY HAVE A ROLE TO PLAY IN THIS FIELD. A NUMBER OF FACTORS TO BE TAKEN INTO ACCOUNT WERE MENTIONED SUCH AS DIFFERENCES OF SCALES OF INDUSTRIES ACCORDING TO COUNTRIES, THE DIFFERENCES AS AMONGST COUNTRIES AS TO THE STAGES ALREADY REACHED IN PROGRAMMES, THE VARIOUS FORMS AND INTENSITY THAT GOVERNMENT SUPPORT CAN TAKE AND THE VARIOUS STAGES AT WHICH R AND D FOR INSTANCE CAN BE STIMULATED.

(14). THOUGH SOME DOUBTS WERE EXPRESSED THERE WAS A BROAD CONSENSUS TO UNDERTAKE FURTHER EXAMINATIONS AND STUDIES. SUCH STUDIES SHOULD HOWEVER BE UNDERTAKEN WITHOUT PREJUDGING THE RESULTS, IN PARTICULAR THE NEED FOR SPECIAL GUIDELINES CONCERNING FOR INSTANCE TRADE POLICIES IN THIS FIELD. IT WAS NOTED THAT A STUDY MADE BY A PRIVATE FIRM WOULD BE PUT AT THE DISPOSAL OF THE COMMITTEE.

(15). THIS ISSUE WHICH IS RELATED TO SEVERAL OTHER SECTIONS WAS RECOGNISED TO BE OF MAJOR IMPORTANCE THOUGH THE SOLUTIONS MAY BE OF A LONGER TERM CHARACTER. SOME SUGGESTED, THAT AMONG THE PRIORITIES, CONSIDERATION SHOULD BE GIVEN TO THE POSSIBILITIES OF IMPROVING INTERNATIONAL CO-OPERATION IN THIS FIELD IN PARTICULAR THROUGH CRITERIA (INCLUDING TRANSPARENCY, REGRESSIVITY,...) FOR THE GRANTING OF DOMESTIC SUBSIDIES. MOST OTHER DELEGATIONS WERE OF THE OPINION THAT IT WOULD BE TOO EARLY TO CONSIDER DEVELOPING ADDITIONAL GUIDELINES AS EXPERIENCE HAD FIRST TO BE GAINED ON THE WORKING OF THE RELEVANT GATT CODE AND OF ITS CONSULTATION PROCEDURES. SOME DELEGATIONS THOUGHT HOWEVER THAT BEYOND THE PURELY TRADE ISSUES AS DEALT WITH IN THE CCDE, THE DOMESTIC SUBSIDY ISSUE MIGHT BE APPROACHED IN PARTICULAR IN OECD FROM THE POINT OF VIEW OF THEIR MORE GENERAL ECONOMIC EFFECTS ON EFFICIENCY. IT WAS ALSO SUGGESTED THAT OECD COULD UNDERTAKE SECTORAL EXAMINATIONS.

EXPORT CONTROLS AND ACCESS TO SUPPLIES

(16). THIS ISSUE DOES NOT APPEAR TO BE OF HIGH PRIORITY, BUT IT SHOULD REMAIN ON THE AGENDA OF THE COMMITTEE HAVING IN MIND THAT IT SHOULD BE DEALT WITH ON A BALANCED BASIS (I.E. INCLUDING ACCESS TO MARKETS). ONE DELEGATION HOWEVER EXPRESSED MORE CONCERN AS THE ISSUE DID NOT RELATE TO RAW MATERIALS ONLY BUT ALSO, POTENTIALLY TO MANUFACTURED GOODS AS A RESULT OF THE ADJUSTMENT PROCESS. ANOTHER DELEGATION COULD SUPPORT A REVIEW OF THE PRESENT SITUATION SO AS TO COME TO A BETTER ASSESSMENT OF THE PROBLEM.

ENVIRONMENT

(17). THERE WAS AGREEMENT THAT THE TRADE COMMITTEE MIGHT REAFFIRM THE VALIDITY OF THE GUIDING PRINCIPLES ADOPTED IN THIS AREA; THEY SHOULD CONTINUE TO BE APPLIED SO AS TO AVOID EMERGENCE OF RELATED TRADE PROBLEMS. ONE DELEGATION ALSO EXPRESSED INTEREST TO THAT END IN PROGRESS TOWARDS HARMONISATION.

RESTRICTIVE BUSINESS PRACTICES

(18). IT WAS GENERALLY AGREED THAT THIS ISSUE AND IN PARTICULAR THE PROBLEM OF EXPORT CARTELS SHOULD BE STUDIED BY THE TRADE COMMITTEE. THE POINT HOWEVER WAS MADE THAT ACCOUNT SHOULD BE TAKEN OF DISCUSSIONS IN THE GROUP OF EXPERTS ON RESTRICTIVE BUSINESS PRACTICES.

TRADE RELATED INVESTMENT ISSUES

(19). THE TRADE COMMITTEE CONFIRMED ITS PREVIOUS DECISION TO INCLUDE THESE ISSUES, AND IN PARTICULAR THE TRADE PERFORMANCE REQUIREMENTS, IN ITS WORK PROGRAMME IN CO-OPERATION WITH CIME. IT TOOK NOTE OF THE HIGH PRIORITY ATTACHED TO THE ISSUE BY ONE DELEGATION.

DEVELOPING COUNTRIES

(20). THERE WAS GENERAL AGREEMENT THAT TRADE WITH DEVELOPING COUNTRIES REMAINED A PRIORITY ISSUE. FINDING SUITABLE MEANS TO INTEGRATE DEVELOPING COUNTRIES MORE FULLY INTO THE MULTILATERAL SYSTEM WOULD BE ONE OF THE KEY OBJECTIVES FOR THE 80S. IN THIS REGARD, THE FOCUS SHOULD BE PUT ON THE GATT AND EFFORTS MADE TO CONVINCE DEVELOPING COUNTRIES OF THE USEFULNESS OF JOINING GATT INSTRUMENTS AND APPLYING THEIR RULES. SEVERAL DELEGATIONS POINTED OUT THAT SUCH AN ARGUMENT COULD BE MADE MORE CONVINCING IF OECD COUNTRIES PROVED IN A CONCRETE MANNER THAT THEY FULLY RESPECTED THE GATT PRINCIPLES AND RULES. MENTION WAS MADE IN THIS CONNECTION OF SAFEGUARDS; A SUITABLE SOLUTION OF THIS PROBLEM WOULD HELP CONSIDERABLY THE DIALOGUE WITH DEVELOPING COUNTRIES.

(21). THE POSSIBILITY FOR BROADLY BASED FURTHER IMPROVEMENTS OF MARKET ACCESS IN FAVOUR OF DEVELOPING COUNTRIES SHOULD NOT BE OVERRATED, CONSIDERING THE DEGREE OF OVERALL TRADE LIBERALISATION AND THE CURRENT ECONOMIC SITUATION. A DIFFERENTIATED APPROACH WOULD BE JUSTIFIED. DEVELOPING COUNTRIES SHOW HOWEVER GREAT RELUCTANCE TO ACCEPT THE CONCEPT OF GRADUATION. SEVERAL SUGGESTIONS WERE MADE TO OVERCOME THIS DIFFICULTY: ONE MIGHT TRY TO BROADEN THIS CONCEPT TO ENCOMPASS TRADE POLICY ASPECTS THAT ARE ATTRACTIVE FOR DEVELOPING COUNTRIES AND TO USE A DIFFERENT KIND OF LANGUAGE; IT WAS ALSO SUGGESTED THAT A MORE DIRECT DIALOGUE MIGHT BE ATTEMPTED BETWEEN OECD COUNTRIES AND THE MORE ADVANCED DEVELOPING COUNTRIES, WHICH ARE STARTING TO REALISE THEIR STAKE IN THE OPEN AND MULTILATERAL TRADING SYSTEM.

(22). THE VARIOUS TRADE ISSUES MENTIONED WOULD BE RAISED AT THE FORTHCOMING GATT MINISTERIAL MEETING. SEVERAL DELEGATIONS FELT THAT THE TRADE COMMITTEE SHOULD DEVOTE A MEETING TO A FULLER DISCUSSION OF ALL THESE QUESTIONS BEFORE NOVEMBER. OTHERS THOUGHT THAT SUCH AN EXERCISE WOULD BE PREMATURE UNTIL ONE KNEW MORE ABOUT THE DEMANDS DEVELOPING COUNTRIES WOULD ELABORATE. IT WAS HOWEVER AGREED THAT THE DIFFERENT ISSUES CONNECTED WITH NORTH-SOUTH TRADE SHOULD REMAIN ON THE TRADE COMMITTEE'S AGENDA AND THAT DELEGATIONS SHOULD STRIVE TO DEVELOP NEW IDEAS.

(23). CO-OPERATION BETWEEN GATT AND UNCTAD SHOULD BE IMPROVED. IN THIS CONNECTION, IT WAS AGREED THAT UNCTAD SHOULD REMAIN A FORUM FOR DISCUSSING TRADE AT A GENERAL LEVEL WHEREAS BOTH BROAD AND SPECIFIC TRADE POLICY ISSUES WOULD BE DEALT IN GATT. ONE DELEGATION RECALLED THE POSSIBILITY FOR TRADE ISSUES TO BE RAISED IN GLOBAL NEGOTIATIONS.

(24). THE COMMITTEE HAD A BRIEF EXCHANGE OF VIEWS ON THE "SOCIAL CLAUSE". THIS ISSUE RAISES COMPLEX AND TO SOME EXTENT CONTROVERSIAL REACTIONS AS IT MAY BE APPROACHED FROM CONFLICTING ANGLES: MORAL AND HUMANITARIAN, ECONOMIC AND POLITICAL. THERE IS A DANGER THAT IT COULD BE USED TO DISGUISE PROTECTIONIST MOTIVATIONS. THE WORK UNDERWAY IN THE I.L.O. WAS MENTIONED AND SEVERAL DELEGATIONS THOUGHT THAT THE RESPONSIBILITY SHOULD REMAIN IN THAT ORGANISATION. OTHERS FELT THAT A DISCUSSION IN THE TRADE COMMITTEE, PERHAPS AT A LATER STAGE, SHOULD NOT BE EXCLUDED. IT WAS POINTED OUT THAT THE "SOCIAL CLAUSE" SHOULD NOT BE DISCUSSED ONLY IN RELATION TO DEVELOPING COUNTRIES.

CENTRALLY PLANNED ECONOMIES

(25). IT WOULD BE UNREALISTIC TO EXPECT MOVES TOWARDS ANY REAL INTEGRATION OF THESE COUNTRIES INTO THE MULTILATERAL SYSTEM WAS WIDELY SUPPORTED. ONE DELEGATION ARGUED THAT BECAUSE OECD COUNTRIES LACKED A COMMON APPROACH ON SEVERAL EAST-WEST TRADE ISSUES, THERE WAS A DANGER THAT THE EASTERN COUNTRIES WOULD EXPLOIT DIFFERENCES BETWEEN MEMBER COUNTRIES. IT THEREFORE SUGGESTED THAT MINISTERS COULD EXAMINE THIS PROBLEM AND GIVE POLICY GUIDANCE. EXPORT CREDITS AND COUNTERTRADE WERE TWO AREAS WHERE A MORE CONCERTED APPROACH WOULD BE WARRANTED.

(26). IT WAS AGREED THAT IN THE AREA OF EXPORT CREDITS EFFORTS IN THIS SENSE SHOULD BE PURSUED AND THE ONGOING PROGRAMME OF WORK IN THE OECD WAS MENTIONED IN THAT REGARD. AS FOR COUNTERTRADE, WHILE THE ANALYTICAL WORK PERFORMED WAS APPRECIATED, DOUBTS WERE EXPRESSED ABOUT THE POSSIBILITY OF DRAWING UP A COMMON POLICY AS THESE PRACTICES VARIED FROM ONE EASTERN COUNTRY TO ANOTHER AND CONCERNED PRIVATE FIRMS IN WESTERN COUNTRIES. SEVERAL SPEAKERS NOTED HOWEVER WITH CONCERN THAT COUNTERTRADE WAS SPREADING BEYOND THE EAST-WEST TRADE AREA.

(27). MORE GENERALLY, IT WAS FELT THAT THE APPROACH FOLLOWED SO FAR IN OECD, I.E. TO ANALYSE VARIOUS ASPECTS OF EAST-WEST TRADE AND EXCHANGE VIEWS ON THE DEVELOPMENTS, SHOULD BE SUPPORTED. SEVERAL SPEAKERS WERE HESITANT ON THE POSSIBILITY OF ACHIEVING A MORE BROADLY BASED CONCERTED APPROACH VIS-A-VIS EASTERN COUNTRIES. ONE REASON WAS THE LACK OF HOMOGENEITY OF THE COUNTRIES IN THAT GROUP. HOWEVER, THE POSSIBILITY WAS LEFT OPEN OF A DISCUSSION BY THE TRADE COMMITTEE, AT A LATER STAGE, OF THE BASIC PROBLEMS RAISED BY TRADE RELATIONS WITH COUNTRIES WHOSE SPECIAL TRADE SYSTEM MADE IT DIFFICULT TO REACH A BALANCE OF ADVANTAGES.

AGRICULTURE

(28). THE COMMITTEE'S DISCUSSION OF THIS ITEM WAS FACILITATED BY ITS PARALLEL CONSIDERATION OF THE STUDY ON PROBLEMS OF AGRICULTURAL TRADE. IT WAS RECOGNISED THAT THIS STUDY, WHICH WAS APPROVED BY THE COMMITTEE AND WILL BE FORWARDED TO THE MINISTERIAL COUNCIL, CONTAINED THE PRINCIPAL AGRICULTURAL TRADE ISSUES FOR THE EOS. THERE WAS GENERAL RECOGNITION OF THE IMPORTANCE WHICH AGREEMENT ON THE STUDY REPRESENTED. THERE WAS ALSO A CONSENSUS THAT OECD SHOULD FOLLOW-UP THAT REPORT, AND DIFFERENT VIEWS WERE EXPRESSED AS TO THE WAY IN WHICH THIS SHOULD BE DONE. THESE QUESTIONS WOULD HAVE TO BE FURTHER ELABORATED BEFORE THE MINISTERIAL COUNCIL, AND WOULD THEREFORE REMAIN ON THE AGENDA OF THE PARENT COMMITTEES.

FISHERIES

(29). THERE WAS GENERAL AGREEMENT THAT THE EVENT WITH THE MOST IMPORTANT IMPLICATIONS FOR TRADE IN MARINE PRODUCTS IN THE EOS HAD BEEN THE MOVE TO 200 MILE LIMITS, AND THE CONSEQUENT NEED TO ADJUST THERETO - REQUIRING IN MANY CASES POSITIVE ADJUSTMENT POLICIES. THE VIEW WAS EXPRESSED THAT THIS COULD BE A LENGTHY PROCESS, GIVEN THE LONG-ESTABLISHED PRIOR TRADE PATTERNS IN THIS SECTOR. WHILE A FAIR DEGREE OF LIBERALISATION HAS EVOLVED OVER THE YEARS, MORE REMAINS TO BE DONE. ON THE OTHER HAND THERE WAS ALSO A GROWING USE OF INDIRECT SUPPORTS. REFERENCE WAS MADE TO THE INTENTION EXPRESSED BY THE ENLARGED BUREAU OF THE FISHERIES COMMITTEE THAT THESE PROBLEMS WOULD CONTINUE TO BE STUDIED IN THE FISHERIES COMMITTEE; TRADE ASPECTS WOULD ALSO REMAIN ON THE AGENDA OF THE TRADE COMMITTEE.

COMMODITIES

(30). THE TRADE COMMITTEE NOTES THAT MOST OF THE ISSUES IN THIS SECTION WERE ALREADY DISCUSSED IN THE HIGH LEVEL GROUP. THE POINT WAS MADE THAT SOME ISSUES MUST BE KEPT IN MIND UNDER THE HEADING OF RELATIONS WITH DEVELOPING COUNTRIES AND THAT IN THIS RESPECT THE TRADE COMMITTEE MAY DRAW THE ATTENTION OF THE HIGH LEVEL GROUP TO SOME MORE GENERAL ASPECTS OF THE PROBLEMS. SUPPORT WAS EXPRESSED FOR A STUDY ON THE PROBLEM OF LOCAL PROCESSING, TAKING INTO ACCOUNT THE COMBINATION OF THE MANY FACTORS INVOLVED. SOME SEE SOME URGENCY IN EXAMINING THESE RELEVANT TRADE PROBLEMS IN VIEW OF THE GATT MINISTERIAL MEETING. ON THE INVESTMENT ISSUE ONE DELEGATION STRESSED THE IMPORTANCE OF ACHIEVING GREATER TRANSPARENCY AND A BETTER ASSESSMENT OF SUPPLY AND DEMAND BY CONSUMERS AND PRODUCERS.

IT WAS ALSO SUGGESTED THAT IN THE LONGER RUN ATTENTION SHOULD BE GIVEN TO POTENTIAL PROBLEMS ARISING FROM DUAL PRICING. IT WAS NOTED IN THIS REGARD THAT THE IEA WAS TAKING UP THIS PROBLEM IN THE ENERGY FIELD.

TRADE IN SERVICES

(31). CONCERNING THE PROPOSAL THAT SERVICES SHOULD BE ON THE AGENDA OF THE GATT MINISTERIAL MEETING SEVERAL DELEGATIONS SAW MERIT IN THE POLITICAL ARGUMENT TO EXPOSE DEVELOPING COUNTRIES TO THE ISSUES AT AN EARLY STAGE. SOME WERE ALREADY PREPARED TO ACCEPT IT, THOUGH THE POINT WAS MADE THAT GREATEST CARE SHOULD BE TAKEN IN DOING SO AND THAT ANY WORK SHOULD PROCEED AT A SLOW PACE. OTHERS WERE STILL HESITANT OR EVEN RELUCTANT ON THESE GROUNDS AND OTHER MORE SUBSTANTIVE CONSIDERATIONS. IT WAS IN PARTICULAR FELT TOO EARLY TO DRAW UP A WORK PROGRAMME FOR NEGOTIATIONS IN GATT.

(32). CONCERNING THE OECD MINISTERIAL MEETING A NUMBER OF DELEGATIONS FELT THAT MINISTERS SHOULD GO BEYOND MERE REGISTRATION OF ONGOING WORK AS A MATTER OF ROUTINE. ON THE BASIS OF ONGOING WORK AN OVERALL ASSESSMENT CAN TAKE PLACE IN THE FALL. SOME DELEGATIONS STRESSED HOWEVER THAT TRADE IN SERVICES WAS ONE AREA WHICH COULD CONTRIBUTE TO KEEP UP THE MOMENTUM FOR TRADE LIBERALISATION.

IT WAS AGREED THAT THE TRADE COMMITTEE MIGHT REVERT TO THESE ISSUES.

(33). CONCERNING THE INCLUSION OF ADDITIONAL SECTORS IN THE WORK PROGRAMME ON SERVICES, THERE WAS A GENERAL ACCEPTANCE IN PRINCIPLE TO INCLUDE DATA PROCESSING AND INFORMATION SERVICES. THE MAIN FOCUS AT THIS STAGE SHOULD HOWEVER BE IN ICCP, BUT THE MEMBERS OF THE TRADE COMMITTEE AND ITS WORKING PARTY SHOULD FAMILIARIZE THEMSELVES WITH THIS SECTOR AND ITS PROBLEMS.

(IV). THE PROCESS OF INTERNATIONAL CO-OPERATION ON TRADE ISSUES

(34). AS GENERAL OBSERVATIONS, SEVERAL DELEGATIONS STRESSED THE IMPORTANCE OF MAKING FULL USE OF THE MULTILATERAL FRAMEWORK OF CO-OPERATION, OF ITS RULES AND PROCEDURES. THIS WAS CONSIDERED INDISPENSABLE IN ORDER TO AVOID EROSION OF THE OPEN AND MULTILATERAL TRADING SYSTEM AND DIMINISHING ITS CREDIBILITY.

(35). SOME COUNTRIES CONTESTED THE VIEW, WHICH THEY FELT TO BE IMPLIED IN THE SECRETARY GENERAL'S NOTE THAT THE SYSTEM HAD BECOME LESS RULE ORIENTED. OTHERS FELT THAT THERE WOULD BE A DANGER IN ANY MOVEMENT TOWARDS GREATER FLEXIBILITY IN APPLICATION OF RULES. ONE DELEGATION NOTED WITH APPRECIATION THE MACRO-ECONOMIC CONTEXT IN WHICH THE INTERNATIONAL FRAMEWORK WAS CONSIDERED IN THE SECRETARY-GENERAL'S NOTE; RULES SHOULD BE LOOKED AT IN THE LIGHT OF ECONOMIC OBJECTIVES, OF ECONOMIC GROWTH IN PARTICULAR, AND FOSTERING CONFIDENCE IN THE SYSTEM.

(36). CONCERNING CONSULTATIONS, A NUMBER OF DELEGATIONS SUPPORTED WIDER USE OF THIS MECHANISM AND THE BROADENING OF THEIR COVERAGE TO INCLUDE MICRO AND MACRO-ECONOMICS WHEN NECESSARY. THE POINT WAS ALSO MADE THAT OECD WAS AN APPROPRIATE FORUM FOR SUCH CONSULTATIONS.

(37). ONE DELEGATION CONSIDERED THAT THERE HAD BEEN A WORRYING DEVELOPMENT TO THE EXTENT THAT CONSULTATIONS WERE LEADING TOO OFTEN TO USE OF THE DISPUTE SETTLEMENTS PROCEDURE. TOO MUCH USE OF THIS PROCEDURE WHEN THERE IS NO PROSPECT FOR SOLUTIONS WOULD UNDERMINE THE SYSTEM. ANOTHER DELEGATION THOUGHT THAT DISPUTE SETTLEMENTS SHOULD BE SEEN AS A DEVELOPMENT OF CASE LAW; THE PROCEDURES SHOULD BE MODELLED ON ARBITRATION SYSTEMS, THUS LEADING TO A FLEXIBLE DEVELOPMENT OF THE SYSTEM.

(38). BILATERAL, OR OTHERWISE RESTRICTED, CONTACTS AND CONSULTATION WERE SEEN BY A NUMBER OF DELEGATION AS A NORMAL PROCESS TO THE EXTENT THAT THESE WERE NOT USED TO DEVISE SOLUTIONS TO TRADE PROBLEMS OUTSIDE THE MULTILATERAL FRAMEWORK. ONE DELEGATION EXPRESSED THE VIEW, WHICH WAS NOT SHARED BY OTHERS, THAT THERE DID NOT SEEM TO BE A DANGER OF TOO LITTLE USE OF THE MULTILATERAL FRAMEWORK, AND THAT ON THE CONTRARY, THERE HAD BEEN A SURGE OF MULTILATERAL CONSULTATIONS.

(39). ON RELATIONS BETWEEN INTERNATIONAL ORGANISATIONS SOME DELEGATIONS INDICATED THAT, WHILE THEY FAVOURED STRENGTHENING CO-OPERATION, MORE THOUGHT WOULD HAVE TO BE GIVEN TO SUBSTANTIVE ASPECTS AND TO MODALITIES. ONE DELEGATION FELT THAT WHILE RELATIONS BETWEEN IMF AND GATT WERE IMPORTANT, TRADE AND MACRO-ECONOMICS (EXCHANGE RATES IN PARTICULAR) WERE TO BE CONSIDERED PRIMARILY BY GOVERNMENTS.

~~LIMITED OFFICIAL~~

9
73

(40). CN COUNTERVAILING POWER, SEVERAL DELEGATIONS INDICATED THEIR RESERVATION OR OBJECTIONS TO THE SUGGESTION THAT "CONSUMERS" WOULD BE CALLED, IN ONE WAY OR ANOTHER, INTO THE VARIOUS PROCEDURES, FOR INSTANCE TO INITIATE CONSULTATIONS. THE REAL ISSUE, IN THEIR VIEW, WAS RATHER TO SEE HOW MACRO-ECONOMIC ASPECTS (INCLUDING THE INTERESTS OF CONSUMERS) COULD BE TAKEN INTO CONSIDERATION AT THE INTERNATIONAL LEVEL. SOME DELEGATIONS CONSIDERED THAT, THOUGH GOVERNMENTS WERE FULLY INFORMED OF ALL FACTORS WHEN CONSIDERING TRADE POLICY ISSUES, IT WOULD NEVERTHELESS BE USEFUL TO SEE HOW COUNTERVAILING POWER COULD BE REINFORCED TO HELP GOVERNMENTS TO GIVE MORE WEIGHT IN THEIR DECISIONS TO MACRO-ECONOMIC CONSIDERATIONS. INFORMATION ON NATIONAL EXPERIENCE IN EVALUATING THE ECONOMIC COSTS OF PROTECTIVE MEASURES AND MAKING SUCH COSTS MORE TRANSPARENT WOULD BE OF INTEREST IN THIS RESPECT.

(41). IT WAS SUGGESTED THAT, IN VIEW OF THE RANGE OF VIEWS EXPRESSED AND THE IMPORTANCE OF THE SUBJECT MATTER, FURTHER INFORMAL DISCUSSIONS SHOULD TAKE PLACE. THE CHAIRMAN AGREED TO EXPLORE, THE OPPORTUNITY OF DOING SO, IN CONSULTATION WITH DELEGATIONS, DURING THE PERIOD UP TO THE NEXT MEETING. END TEXT.

KATZ
BT
#8141

NNNN

~~LIMITED OFFICIAL USE~~