

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

(8 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 2/22/2008

File Folder FRANCE-ISSUES (8)

FOIA

S2007-081

Box Number 13

NOUZILLE

179

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
51115	CABLE	200533Z MAR 82 <i>R 4/20/2010 M2007-081</i>	9	3/20/1982	B1
51116	PAPER	DUPLICATE OF 51086 <i>R 4/23/2010 NLRRM2007-081</i>	4		B1
51117	MEMO	BAILEY TO CLARK RE REPORT ON BUCKLEY MISSION <i>R 10/1/2010 MR2007-081/1</i>	4	3/22/1982	B1
51118	CABLE	191006Z MAR 82 <i>R 4/20/2010 M2007-081</i>	2	3/19/1982	B1
51119	REPORT	REPORT ON INTERAGENCY MISSION TO EUROPE <i>R 4/20/2010 M2007-081</i>	3	ND	B1
51120	CABLE	261352Z MAR 82 <i>R 4/20/2010 M2007-081</i>	4	3/26/1982	B1
51121	CABLE	RE VISIT OF OECD SECRETARY GENERAL VAN LENNEP <i>R 4/20/2010 M2007-081</i>	3	3/30/1982	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.

Make copy
already
& get to
Sprinkler
this pm!

Done

— L.D. 'd
11:40

*Beuf, my comments!
Henry*

DKARNOSKY
Draft: DKarnosky
3/19/82

*File
Francis
Summit
(155nes)*

The Opportunities for Coordination of Economic Policies

The ^{are} potential benefits of international cooperation on economic policies ~~is~~ immense, but realization of the promise of cooperation requires that individual nations first establish the resolve to pursue long-term policies to assure price stability and to encourage balanced real economic growth. Establishment of compatible and convergent long-term policies is a precondition for stability of exchange markets, and requires efforts by each nation individually to control its domestic monetary expansion, impose fiscal discipline, provide production incentives and to increase the internal flexibility of its economic system.

*Delete:
Sets up process for coord. when we was to use the discussion directed by this approach to encourage them over time to see the consequences of their policies. I'd like to change them.*

All summit countries share the same long-term goal of stable, vigorous, non-inflationary growth, reduced unemployment and greater stability of exchange rates. The task is to translate this agreement on objectives into effective policies. ~~Continued failure on this front precludes effective cooperation on other policies to expand trade and development.~~

The domestic economic policies of each nation reflect the influence of its particular historical, cultural, and institutional situation. National sovereignty with respect to economic policy is, and will continue to be, a basic feature of the international economic system. But we must all recognize the consequences of our policy differences. The trade and financial linkages of an interdependent world severely limit the ability of any nation to insulate itself from the impact of the economic policies and performance of others and require that we recognize the limits on how far we can differ in domestic policy.

~~We are sensitive to the fact that sometimes a country must accept short-term losses in return for more substantial long-term gains. In the past "coordinated" policy actions which the Summit countries have undertaken have quite often attempted to circumvent market mechanisms in order to achieve a short-term policy goal, even at the expense of worsening longer term performance. Many of the economic problems we face now are the result of basic divergences in our economic policies. In order to solve those problems, we need to limit the underlying divergencies, not to try to mask their symptoms by suppressing market signals. For instance, where exchange markets are unstable due to differing economic policies and performance, exchange market intervention or capital controls cannot succeed in eliminating the basic divergences. Similarly, coordination of interest rates, in disregard of market forces, could be futile.~~

*Delete:
Debtors
live on the
short-term
convinced them
on substance of
an agreement,
leave them
implied*

The United States prefers the former.

It is clear, however, that not all policies and objectives are equally susceptible to international cooperation. There are limits to the scope for detailed coordination of policies. Recognition of these bounds is necessary to assure the full potential of cooperative

efforts and to avoid efforts which impede achievement of common long-term goals. We must distinguish between those areas where explicit coordination of specific actions is imperative, and those in which it is necessary to achieve compatibility of overall policy approaches.

The general policy issues which have international implications can be grouped into three categories:

- (1) Areas where the market mechanism would not be expected to yield the optimal result or where policies have significant international externalities. Sustained efforts by some countries clearly benefit others whose contribution is less than commensurate with their economic resources. While a nation which does not contribute to the joint effort would nevertheless benefit from the effort of others, the total benefit to of the group is reduced. A deficient performance by some nations negates the efforts of the others, or at least, reduces their effectiveness. The common objective allows a clear determination of the roles of individual nations and allows for specific guidelines for the contribution of each country. Detailed cooperation is imperative in these areas.

These issues often extend into areas beyond that of direct economic policy, but have significant effects on economic performance. Included in this area are policies contributing to mutual defense, and the expansion of trade and development through foreign aid.

- (2) Policies which interfere with the operation of competitive markets. These involve predatory actions which attempt to transfer productive facilities from other countries or actions to protect domestic activity from external competitive pressures. Included, among others, are certain export promotion schemes, tax and credit preferences for exporters; tax holidays for foreign investors, direct controls on prices, credit allocation and capital flows, and systematic intervention in exchange markets.

neo-mercantilist

The use of these policies, if unchecked, is certain to result in enormous damage to the entire community of nations. Consequently, the case for explicit international coordination, in fact, harmonization, of efforts to eliminate anti-competitive policies is overwhelming.

- (3) The broad range of domestic macroeconomic policies, which affect other nations because of the economic interdependence of nations. This area presents the most difficult problem for international coordination but it is also a major source of current economic difficulties.

These policy differences among nations affect flows of goods, services, and capital and often are the primary source of instability in exchange markets. However, no precise short-run coordination, in the sense of synchronized timing or intensity of these policies is likely to be effective. Instead, establishing a universal commitment to focus basic domestic policies on long-term objectives is necessary. While the timing and intensity with which these policies are implemented would vary across nations, the critical goal is the commitment of individual nations to adopt a long-term perspective.

discuss and relate basic
view the consequences of their immediate policies over a longer term perspective

The secular policies of individual countries define the environment in which the international economic system operates. Establishing the prospect for sustained non-inflationary growth is a necessary condition for efficient and stable exchange markets.

to minimize where possible divergence among national policies

The Necessary Conditions for Coordination of Long Term Policies

There must inherently be a great rift between nations which are willing to tolerate domestic inflation as they pursue their internal social goals, and other nations which are ~~likely~~ committed to maintaining or achieving general price stability. ~~These nations with inflationary policies often have not been willing to accept the exchange rate rate and balance of payments consequences and therefore have instituted capital controls, trade restrictions and exchange market intervention.~~ Also, this fundamental policy imbalance leads inevitably to pressure on other nations to adopt accommodative domestic policies, misdirecting the spirit of international cooperation to short-run fine tuning of aggregate demand.

to minimize of their policies. If they do not, there are left with no other choice but to institute

Efforts at international cooperation ~~must focus first on establishing the resolve of each nation to reduce its domestic inflation and to promote real economic growth through increased opportunities for productive investment.~~ The challenge to this resolve continues to arise from the perceived conflict between each country's immediate domestic objectives and our mutual long-term interests. Short-term conditions are important and deserve attention, but that concern ~~need not preclude adoption of effective long-term policies.~~ In fact, many current problems are only the immediate manifestation of long-term conditions which stimulate inflation, and discourage real economic growth. Thus, our ability to deal with short-term problems effectively is enhanced greatly by ~~strong~~ ^{a common recognition and longer-term goals} commitment to secular price stability and sustainable economic growth.

must be achieved imperatives of short run

should be balanced by a view of the longer term consequences of immediate policies and the requirements of effective policies in the longer-term perspective

So long as individual nations are preoccupied with their short-term, and often transitory domestic conditions, the prospect of establishing non-inflationary growth is dim. Instead, international relations would be strained by domestic pressures for international cartels, subsidization of domestic markets, controls on prices and capital markets, and fixing of exchange rates.

relate: redundant

Note: Follows letter to the second to last para. in previous issue on delete last para. on previous page

Secular policies to assure general price stability and to encourage real economic growth are the only method for achieving permanent expansion of job opportunities, low interest rates, and competitiveness in international markets. A policy of reallocating resources away from current consumption by both the government and the private sectors, and towards long lived productive offsets is, by definition, a policy for lowering real rates of interest and stimulating growth. The required policies include: increased discussion & coordination are:

(1) Monetary discipline. While there are differing views on the sources of inflation, one of the few economic certainties is that inflation can persist only where it is accommodated by monetary expansion. ~~These Nations which now experience inflation must face the fact that their trend rate of monetary expansion must ultimately be reduced.~~ Each nation must decide the speed of this adjustment, recognizing that international differences in the paths to lower inflation will be reflected in exchange and capital markets.

have to reduce the on face the long term consequences of higher & higher prices

(2) Budget discipline. Increasing the sustainable pace of real economic growth requires that the burden of financing government spending must be shifted away from production, work and capital formation, toward consumption and leisure activity. This includes concerted effort to reduce the burgeoning credit demands of government which result from persistent budget deficits. Also, the incidence of taxation should be shifted away from production activity and the accumulation of capital.

Note: Can we say that budget deficits contribute psychologically to the debt which is not directly in the hands of the public, would show action - lead in U.S. show turning as seen by Europe & Japan in U.S.

(3) Internal flexibility. Differences within the private sector in the ability to adjust to economic shocks can create severe internal disruptions, which place strain on the discipline of the central government. Willingness of government to protect existing industries, firms, and jobs when they fall victim to competitive forces is the source of considerable internal rigidity. Protection in one country inevitably leads to pressure for retaliation by trading partners.

Problems of the Transition to Less Inflation and Faster Growth

Reversing the trend of stagflation is not a quick or painless process. The immediate burden is real, and is substantially increased when the effort to implement longer term policies is half-hearted. However, the alternative is a steady erosion of standards of living for most nations, increased international tensions, and a decrease in ability to resist external economic, political and military threats.

The greatest impediment to the establishment of long-term policies to reduce inflation and stimulate growth is the lingering presumption of a lasting trade-off between inflation and unemployment. However, the experience of many nations over the past decade shows the sacrifice of sound long-term policies for the purpose of supporting domestic employment has led only to both more inflation and unemployment. Inflation and real economic growth are ultimately incompatible.

This is key I wonder if it should follow the policy on P. 1 which shows all countries share the same long-term goal - at least be brought down by an appropriate series of steps on p. 1.

Handwritten signature or initials.

High and varying inflation imposes costs on a society by reducing standards of living in the future. Thus, the immediate temporary costs that result from imposing monetary discipline must be weighed against the permanent losses of output and employment which are certain to result from a failure to act. In an open international system part of these secular losses will be reflected in a steady depreciation of the domestic currency and a loss of competitiveness to nations which demonstrate a stronger commitment to price stability.

Establishing the credibility of an anti-inflationary monetary policy is crucial to reducing the transition costs. This requires a demonstrated commitment to monetary discipline, avoiding the temptation to sacrifice monetary control, even temporarily, to the immediate pressures of concern about interest rates and exchange rates. A variety of factors affect interest and exchange rates in the short run, not the least of which is concern about the commitment of monetary authorities to long-term control of money growth. Frequent, systematic intervention in both domestic and international markets aggravates those fears. Those few countries which have established some degree of monetary discipline have very strong economies -- and their commitment to maintain control has given them an advantage in absorbing economic shocks.

During the transition it is unlikely that the long-term policies of various nations would be perfectly in phase. The credibility of policy would vary from country to country, as would the relative intensity of the policy actions. This situation would be expected to yield temporary imbalances in both domestic and international markets, as expectations adjusted at varying rates. These transitory disruptions can be reduced, but not avoided entirely.

The magnitude and duration of transitional problems is influenced greatly by public perception, both at home and abroad, of government's commitment to long-term policies. Expedient action, in the form of stimulus to demand and intervention in markets, is a clear signal of a lack of that commitment. Ironically, short-term efforts to suppress the transitional effects of adjustment to noninflationary pro-growth trends can be expected to worsen the immediate economic situation. The same holds for efforts by a government to avoid the immediate domestic consequences of the adoption by other nations of long-term policies which are more credible than its own.

In summary, international economic problems have been aggravated by a failure to achieve the common goal of non-inflationary economic growth. Divergent long-term policies are reflected in volatility of current exchange markets and needless fluctuations in economic activity. This situation requires more emphasis on secular policy and less on synchronization of short-term aggregate demand programs within each nation. The potential benefits are enormous and are measured in terms of more jobs, lower and less variable interest rates, stable prices and elimination of the major force behind volatility of exchange rates.

flexibility
rates lead
to trade restraints

⑦ Trade + macro pol's - WP-3 almost rec. diff policy mix for Japanese.
US opposed. Rec. IMF + GATT should get tog.

File
France
Summit
(issues)

US + EC
agree - found
time in
long time

① OECD report on agriculture - Mins. commit to negs?
See oppor. to give Ems. a choice betw. ~~negs~~ ^{further study} in OECD
^{to negs} US efforts in GATT as/EC on third party export.
Ministerial obj's. - study completed by June 83.

② LDCs - integrate into system on trade & then perhaps
later on trade-related investment.

3-tier GATT system - new column in GATT

DCs - access to fastest growing market

← NICs - get to retain prefer. treatment.

LLDCs - get GSP w/o big suppliers

van Lennep
wonders whether
this is enough.
safeguard code
confront LDCs
w/ reality

No interest on part of Ems. - [but their int. can be increased by ^{gaining} further
access to LDC market]

③ Rel'ship betw. trade + other issues

Coop w/ NICs on investment issues

Less interest in Europe [but bec. they cut their own deals -
outprocessing in textiles]

④ High tech (Services)

Need ^{to move} from debate to practical cases

Govs. have to tell Secretariat what to do!

Hormats raises unequal access to tech. issues - Japan
Should OECD do study on barriers to acquisitions, etc.

Br. wonders if revision of proc. code is issue - but it
is larger than that

Sector app. is better than nothing - define sector
properly & it will be all-embracing

Positive
can become
creative

⑤ Steel

Need to move to market (unlike management in textiles)

sector Comm. ^{should} phase itself out - Wise Men Gp?

⑥ Competition Policy

Antitrust Restrictive Bus Practices

No arbitration procedures

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

France
Summit
(issues) 8

PAGE 01 PARIS 0028 DTG: 200533Z MAR 82 PSN: 004632
EOB777 AN010536 TOR: 079/05552 CSN: CR1202

DISTRIBUTION: 1SEC-01 ECON-00 /001 A3

WHTS ASSIGNED DISTRIBUTION:
SIT:
EOB:

OF IMMED
DE RUFHRA #0028 0790549
O 200533Z MAR 82 ZFF-4
FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 2182
DEPARTMENT OF TREASURY WASHDC IMMEDIATE
USDOC WASHDC IMMEDIATE
USDA WASHDC IMMEDIATE
WHITE HOUSE IMMEDIATE

INFO ALL OECD CAPITALS
USMISSION GENEVA 8642

~~CONFIDENTIAL~~

LIMITED OFFICIAL USE SECTION 01 OF 09 PARIS 10028
USOECB
D FOR DEPUTY SECRETARY STOESEL
P FOR EAGLEBURGER
EUR FOR HOLMES, VOGELGESANG, AND BILLO
EB FOR HORMATS
TREASURY FOR SECRETARY REGAN, SPRINKEL, LELAND
DOC FOR SECRETARY BALORIGE, OLMER, WALDMAN
USDA FOR SECRETARY BLOCK, LODWICK AND SMITH
WHITE HOUSE FOR NSC-CLARK; CEA FOR WEIDENBAUM
GENEVA FOR AMBASSADOR SMITH
USEC - AMBASSADOR VEST
PASS USTR FOR AMBASSADOR BROCK, MACDONALD, FEKETEKUTY
E.O. 12065: N/A
TAGS: ECIN, EFIN, ETRD, ENSD, OCON, DECD
SUBJECT: OECD SECRETARY GENERAL VAN LENNEP'S MARCH
24-27 TRIP TO WASHINGTON; PLANNING THE MAY 10-11 OECD
MINISTERIAL MEETING

1. SUMMARY AND INTRODUCTION:

IN HIS TALKS WITH ADDRESSEES NEXT WEEK, VAN LENNEP WILL SEEK YOUR REACTIONS AND GUIDANCE RE SECRETARIAT PLANNING FOR OECD MINISTERIAL MEETING. THIS MESSAGE SETS FORTH HIS CURRENT THINKING ON SUBSTANCE AND SCENARIO AS WELL AS MISSION COMMENTS ON SOME KEY ISSUES WASHINGTON AGENCIES MAY WISH TO CONSIDER BEFORE HE COMES. THE SETTING FOR THE MINISTERIAL MEETING WILL BE ONE OF THE MOST TENSE AND COMPLEX IN THE ORGANIZATION'S 21 YEARS. THE ISSUES ON THE AGENDA -- MACROECONOMIC POLICY, TRADE (IN ALL ITS RAMIFICATIONS), AGRICULTURE, EAST-WEST AND NORTH-SOUTH COVER THE GAMUT OF CURRENT DIFFICULTIES IN THE RELATIONSHIP WITH EUROPE AND JAPAN. THE RUN-UP TO AND THE MINISTERIAL MEETING ITSELF -- CAN MAKE AN IMPORTANT CONTRIBUTION TO THE VERSAILLES SUMMIT.

THE DISCUSSION BELOW IS KEYED TO THE MAIN AGENDA ISSUES; BUT THE AGENDA ITSELF MAY BE ALTERED SOMEWHAT FOR POLITICAL/PRESENTATIONAL REASONS. END SUMMARY AND INTRODUCTION

2. ECONOMIC PROSPECTS AND POLICIES

A. DISCUSSION:

THE PROBABLE ECONOMIC BACKDROP FOR THIS DISCUSSION WILL BE UNPRECEDENTED POST-WAR UNEMPLOYMENT AND CONTINUING UNCERTAINTY OVER THE WORLD ECONOMIC OUTLOOK. THE EUROPEANS ARE LIKELY TO ACCUSE THE U.S. OF LAX FISCAL POLICY (LARGE BUDGET DEFICITS) AND HIGH INTEREST RATES AND TO ACCUSE JAPAN OF OVERLY TIGHT FISCAL POLICIES AND LOW NOMINAL INTEREST RATES. BOTH COMPLAINTS ARE ROOTED IN EXCHANGE RATE CONSIDERATIONS. THE EUROPEANS FEAR A STRONG DOLLAR'S EFFECT ON INFLATION. A WEAK YEN IS CITED AS AN UNFAIR COMPETITIVE ADVANTAGE FOR THE JAPANESE. THERE WILL BE A STRONG TENDENCY ON THE PART OF FRENCH, SCANS, AND OTHERS TO STRESS MORE ACTIVE EMPLOYMENT POLICIES.

VAN LENNEP'S OBJECTIVE, AS REPORTED IN PARIS 5240 IS TO ATTEMPT A BETTER UNDERSTANDING AND POSSIBLE CONSENSUS CONCERNING THE DIFFERENT ECONOMIC SITUATIONS AND OUTLOOKS OF OECD MEMBER COUNTRIES WITH REGARD TO HIS PERCEIVED CENTRAL OBJECTIVE OF RESTORING THE PROFITABILITY OF PRIVATE INVESTMENT (ESPECIALLY OF JOB-CREATING INVESTMENT) AS A PREREQUISITE FOR SUSTAINED GROWTH. WHILE HE BELIEVES THE TROUGH OF THE CURRENT RECESSION WILL HAVE BEEN PAST BY THE TIME OF THE MINISTERIAL MEETING, THE TASK OF RESTORING PROFITABILITY OF PRIVATE INVESTMENT WILL DEPEND ON CONTINUED ACTION TO COMBAT INFLATION, BRING DOWN INTEREST RATES AND, MOST IMPORTANT IN MANY EUROPEAN COUNTRIES REDUCE REAL WAGES AND NON-WAGE LABOR COSTS. HE WOULD LIKE THE MINISTERIAL MEETING TO REACH A

CONSENSUS ON A DIFFERENTIAL APPROACH TO MACROECONOMIC POLICY VIZ:

-- THE UNITED STATES SHOULD CONTINUE TO FIGHT INFLATION, BRING DOWN THE BUDGET DEFICIT AND OTHERWISE CONDUCT ITS MACROECONOMIC POLICIES SO THAT INTEREST RATES WILL COME DOWN AND STAY DOWN. IN THE U.S. REAL LABOR COSTS ARE BEING ADJUSTED AND AS SOON AS
BT

DECLASSIFIED

NLRR MD7-081 #5115

BY CV NARA DATE 4/20/10

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

9

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 01 PARIS 0028 DTG: 200533Z MAR 82 PSN: 004627
EOB776 AN010535 TOR: 079/0557Z CSN: CR1203

DISTRIBUTION: SEC-01 /001 A3

WHTS ASSIGNED DISTRIBUTION:
SIT:
EOB:

OP IMMED
DE RUFHRA #0028 0790550
O 200533Z MAR 82
FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 2183
DEPARTMENT OF TREASURY WASHDC IMMEDIATE
USDOC WASHDC IMMEDIATE
USDA WASHDC IMMEDIATE
WHITE HOUSE IMMEDIATE

INFO ALL OECD CAPITALS
USMISSION GENEVA 8643

~~C O N F I D E N T I A L~~

LIMITED OFFICIAL USE SECTION 02 OF 09 PARIS 10028
INFLATIONARY EXPECTATIONS HAVE ABATED, PRIVATE
INVESTMENT AND GROWTH OF AN EMPLOYMENT-CREATING KIND
SHOULD BE REGISTERED ON AN INCREASED AND SUSTAINED
BASIS.

-- A GROUP OF WESTERN EUROPEAN COUNTRIES WHERE THERE IS--
A CONTINUING NEED FOR RESTRICTIVE FISCAL AND MONETARY
POLICY AND ESPECIALLY FOR ACTION TO BRING ABOUT A
REDUCTION IN WAGES AND NON-WAGE LABOR COSTS. (VAN
LENNEP PROBABLY MEANS FRANCE, BELGIUM AND THE
SCANDINAVIAN COUNTRIES, BUT THEY MAY NOT AGREE, WHILE
GERMANY AND PERHAPS THE U.K. WILL VOLUNTEER TO BE
INCLUDED IN THIS GROUP.) HE SEES HIGH LABOR COSTS AS
THE PRINCIPAL OBSTACLE TO PROFITABILITY OF PRIVATE
INVESTMENT AND EMPLOYMENT CREATING GROWTH.

-- A GROUP OF WESTERN EUROPEAN COUNTRIES WHERE
INFLATION IS UNDER CONTROL AND REAL WAGES HAVE BEEN
BROUGHT DOWN, SHOULD ADHERE TO A PRESCRIPTION OF
INVESTMENT STIMULATING POLICIES AND EMPLOYMENT-
GENERATING MEASURES WHERE NECESSARY. (VAN LENNEP MAY
MEAN GERMANY AND POSSIBLY THE NETHERLANDS, AUSTRIA
AND/OR SWITZERLAND, BUT WHETHER THESE COUNTRIES HAVE
ACTUALLY CONQUERED INFLATION OR WILL EVEN WANT TO BE
INCLUDED IN THIS GROUP IS PROBLEMATIC, UNLESS, IN THE
CASE OF GERMANY AND AUSTRIA, THEY BELIEVE IT IS MEANT
TO ENDORSE STEPS THEY HAVE ALREADY TAKEN.)

-- JAPAN WHERE THE PRESCRIPTION IS FOR A MACROECONOMIC
POLICY MIX AND CAPITAL MARKET POLICIES WHICH EMPHASIZE
GREATER DOMESTIC EXPANSION AND FOR RELAXATION OF IMPORT
BARRIERS.

B. SCENARIO:

MACROECONOMIC DISCUSSION WILL BE TAKEN UP FIRST SO THAT
SECRETARY REGAN AND OTHER FINANCE MINISTERS CAN DEPART
MAY 11 FOR THE HELSINKI IMF MEETINGS. THIS PORTION OF
THE MEETING IS STILL BEING DISCUSSED AMONG OECD
PERMREPS. VAN LENNEP WOULD LIKE TO AVOID IF POSSIBLE
SET SPEECHES BY ALL TWENTY-FOUR MINISTERS. HE IS
ENCOURAGING THE SUBMISSION OF WRITTEN COUNTRY

STATEMENTS, WHICH WOULD ALLOW HIM TIME TO STAGE-MANAGE
A GENUINE DISCUSSION AROUND THE MAIN ISSUES PERTAINING
TO THE MAJOR COUNTRIES OR GROUPS OF COUNTRIES. WHILE
SOME MINISTERS ARE LIKELY TO BE OBDURATE IN THIS
REGARD, HE HOPES TO LIMIT THE SLATE OF SPEAKERS TO
SECRETARY REGAN AND SELECTED OTHER MINISTERS WHO ARE
REPRESENTATIVE OF THE GROUPS AND THE POINTS OF VIEW ON
THE ISSUES.

THIS PORTION OF THE MEETING WOULD BEGIN ABOUT 10:30
A.M. WITH AN INTRODUCTORY STATEMENT BY DUTCH LABOR
MINISTER DER UYL, CHAIRMAN OF THE RECENT MANPOWER AND
SOCIAL AFFAIRS MINISTERS MEETING, WHO WILL GIVE A BRIEF
REPORT ON AND MESSAGE FROM THAT MEETING. EPC CHAIRMAN
MURRAY WEIDENBAUM WILL FOLLOW WITH A REPORT ON THE WORK
OF THE ECONOMIC POLICY COMMITTEE, INCLUDING ESPECIALLY
ITS MOST RECENT DISCUSSION ON THE WORLD ECONOMIC
OUTLOOK. THE SECGEN WILL THEN SET FORTH THE ISSUES FOR
MINISTERIAL DISCUSSION. HE WOULD LIKE TO TERMINATE THE
SUBSTANTIVE DISCUSSION BY EARLY AFTERNOON SO THAT
FINANCE MINISTERS COULD FOCUS ON THE MACROECONOMIC
PORTIONS OF THE COMMUNIQUE BEFORE THE TRADE AND FOREIGN
MINISTERS BEGIN THE DISCUSSION OF THE TRADE ITEMS ON
THE AGENDA. THERE IS SOME THOUGHT BEING GIVEN TO
CONVENING SENIOR OFFICIALS FROM CAPITALS FOR A FINAL
LOOK AT THIS PORTION OF THE DRAFT COMMUNIQUE SUNDAY
AFTERNOON PRIOR TO THE MEETING.

IN VAN LENNEP'S THINKING, GREATER PRECISION ON MACRO
ISSUES WILL ONLY EMERGE FROM THE EPC BUREAU MEETING ON
MARCH 27 AND THE EPC MEETING ON APRIL 28 - 30. BUT
THE SPRING'S COMPACT SCHEDULE MEANS THE MAIN ISSUES
DOCUMENTS FOR THE MINISTERIAL MEETING WILL HAVE TO BE
DRAFTED BEFORE THE EPC MEETING AND REFINED BY THE TIME

OF THAT MEETING.

C. ISSUES:

(1.) WHAT WILL WASHINGTON TELL VAN LENNEP ABOUT THE
SUBSTANCE OF HIS DIFFERENTIATED APPROACH? THERE ARE
OBVIOUSLY ASPECTS OF IT WHICH ARE AT VARIANCE WITH US
POLICY AS ENUNCIATED HERE, E.G., UNDER SECRETARY
BT

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 01 PARIS 0028 DTG: 200533Z MAR 82 PSN: 004635
EOB779 AN010538 TOR: 079/0601Z CSN: CR1205

DISTRIBUTION: 1SEC-01 / 001 A3

WHTS ASSIGNED DISTRIBUTION:
SIT:
EOB:

OP IMMED
DE RUFHFA #0028 079055Z
O 200533Z MAR 82
FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 2184
DEPARTMENT OF TREASURY WASHDC IMMEDIATE
USDOC WASHDC IMMEDIATE
USDA WASHDC IMMEDIATE
WHITE HOUSE IMMEDIATE

INFO ALL OECD CAPITALS
USMISSION GENEVA 8644

~~C O N F I D E N T I A L~~

LIMITED OFFICIAL USE SECTION 03 OF 08 PARIS 10028
SPRINKEL'S OBJECTION AT WP-111 TO THE CRITICISM OF THE
JAPANESE ON THE RELATIONSHIP OF THEIR CURRENT MACRO
POLICY MIX TO THE YEN RATE (SEE PARIS 9605). YET IT
STRIKES US THAT THE VAN LENNEP DIFFERENTIATED APPROACH,
ALTHOUGH REQUIRING SOME REFINEMENTS, HAS TWO IMPORTANT
MERITS: (A) IT EMPHASIZES THE IMPORTANCE OF PRIVATE
INVESTMENT AND THE NEED TO REDUCE LABOR COSTS, AND (B)
IT PROVIDES A FRAMEWORK FOR THE DISCUSSION WHICH IS NOT
EXCLUSIVELY FOCUSED ON AMERICAN POLICY.

(11.) DOES WASHINGTON HAVE ANY STRONGLY HELD VIEWS ON
THE SCENARIO AS DISCUSSED ABOVE? IF SO, THEY SHOULD BE
TOLD TO VAN LENNEP BECAUSE SCENARIO WILL BE THE SUBJECT
OF INTENSIVE DISCUSSIONS AMONG PERMREPS ON VAN LENNEP'S
RETURN.

3. POSITIVE ADJUSTMENT:

A. DISCUSSION: THERE IS NO SEPARATE AGENDA ITEM ON
THIS TOPIC WHICH IN ITS ORIGINS STEMMED FROM
PREOCCUPATION WITH EFFECTS OF MICRO POLICY ON
MACROECONOMIC DEVELOPMENTS. THE NEW EMPHASIS IS ON THE
EFFECTS OF MICRO POLICY ON TRADE FLOWS. THE SPECIAL
GROUP'S MANDATE HAS EXPIRED. ITS FINAL REPORT DRAWS A
NUMBER OF SUBSTANTIVE CONCLUSIONS, ALL OF WHICH ARE
HIGHLY COMPATIBLE WITH U.S. POLICY, AND IDENTIFIES A
SERIES OF ISSUES FOR FUTURE WORK. VAN LENNEP'S
OBJECTIVE, WHICH WE SHARE, IS FOR THE MINISTERIAL TO
REAFFIRM THE 1978 ORIENTATIONS, REITERATE THEIR
CONTINUING RELEVANCE, AND REQUEST ONGOING WORK.
MINISTERS SHOULD SEND A POLITICAL MESSAGE REAFFIRMING
THE ORIENTATION OF THE SPECIAL GROUP, AND STRESSING THE
IMPORTANCE OF PRINCIPLES DURING PERIOD OF SLOW GROWTH
AND HIGH UNEMPLOYMENT. FOR THE FUTURE, MINISTERS
SHOULD REQUEST FOLLOWUP WORK ON DOMESTIC IMPLICATIONS
OF STRUCTURAL POLICIES. MINISTERS SHOULD ALSO REQUEST
WORK PROGRAM ON INTERNATIONAL IMPLICATIONS OF DOMESTIC
STRUCTURAL POLICIES. UNDER THIS RUBERIC, COMMITTEES
SHOULD BE DIRECTED TO REINVIGORATE CONSULTATION/
NOTIFICATION MECHANISMS.

// Yes!!

B. SCENARIO: AT THIS POINT, VAN LENNEP HAS NO FIXED
VIEWS ON A SCENARIO FOR DISCUSSION OF POSITIVE
ADJUSTMENT AT THE MINISTERIAL. HE SEES IT CONCEPTUALLY
AS A TRANSITION BETWEEN THE MACRO AND TRADE
DISCUSSIONS, AND THERE IS SOME POSSIBILITY THAT IT WILL
BE TREATED AS A SEPARATE ISSUE. IN ANY EVENT,
WEIDENBAUM, AS EPC CHAIRMAN, WOULD PROBABLY INCLUDE
REMARKS ON THE CONCLUSION OF THE PAP WORKING GROUP IN
HIS INTRODUCTION TO MACROECONOMIC DISCUSSION.

C. ISSUES: DOES WASHINGTON HAVE ADDITIONAL VIEWS ON
SUBSTANCE OR SCENARIO? WASHINGTON AGENCIES SHOULD
PREPARE TO HEAR FROM VAN LENNEP AND TIETMEYER THAT SOME
COUNTRIES WANT TO CONTINUE SOME FORM OF PAP GROUP TO
PREPARE EPC DISCUSSION.

4. TRADE ISSUES IN THE 1980'S:

A. DISCUSSION: THIS AGENDA ITEM WILL FOCUS ON THE
RESULTS OF THE OECD STUDY COMMISSIONED AT LAST YEAR'S
MINISTERIAL MEETING AT THE INITIATIVE OF AMBASSADOR
BROCK. TO COMPLY WITH THE HIGHLY NEGOTIATED MANDATE,
THE SECRETARY GENERAL PRODUCED AN ISSUES PAPER, HELD AN
INFORMAL DISCUSSION AT ROYALMONT WITH KEY POLICYMAKERS
FROM CAPITALS AND SUBMITTED THE REVISED ISSUES PAPER TO
ALL THE RELEVANT COMMITTEES OF THE ORGANIZATION. THIS
PROCESS, WHICH INVOLVES SOME 20 DIFFERENT BODIES, HAS
BEEN USEFUL IN VAN LENNEP'S VIEW FOR SEIZING GOVERNMENT
OFFICIALS FROM NUMEROUS DIVERSE FIELDS WITH THE
TRADE-RELATED ASPECTS OF THEIR WORK. MANY OF THE
COMMITTEE RECOMMENDATIONS HAVE BEEN RECEIVED AND ALL
WILL BE SUBMITTED TO THE MINISTERIAL MEETING AS PART OF
THE FINAL REPORT. HOWEVER, NOT MANY NEW OR ORIGINAL

IDEAS SEEM TO HAVE EMERGED FROM THE PROCESS AND AS VAN
LENNEP ANNOUNCED IN COUNCIL. HE PLANS TO ACCOMPANY HIS
REPORT TO THE MINISTERS WITH HIS OWN PROPOSALS FOR
THEIR CONSIDERATION.

VAN LENNEP'S PROPOSALS TO MINISTERS ARE STILL IN THE
EARLY STAGES OF CONSIDERATION. HE PLANS TO SET FORTH
THESE IDEAS IN WASHINGTON NEXT WEEK AND SEEKS YOUR
REACTIONS AND GUIDANCE ON THEM. HE WENT OVER THEM
ORALLY IN SUMMARY FASHION WITH HAFERKAMP IN BRUSSELS
BT

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 01 PARIS 0028 DTG: 200533Z MAR 82 PSN: 004640
EOB782 AN010540 TOR: 079/0602Z CSN: CR1207

DISTRIBUTION: ISEC-01 /001 A3

WHTS ASSIGNED DISTRIBUTION:

SIT:
EOB:

OP IMMED
DE RUFHRA #0028 0790553
O 200533Z MAR 82
FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 2185
DEPARTMENT OF TREASURY WASHDC IMMEDIATE
USDOC WASHDC IMMEDIATE
USDA WASHDC IMMEDIATE
WHITE HOUSE IMMEDIATE

INFO ALL OECD CAPITALS
USMISSION GENEVA 8645

~~C O N F I D E N T I A L~~

LIMITED OFFICIAL USE SECTION 04 OF 09 PARIS 10028
EARLIER THIS WEEK BUT, AS FAR AS WE CAN TELL, THERE WAS
NO CLEARCUT REACTION. (WE WILL CONTINUE TO SEEK
INFORMATION ON EC VIEWS.) THIS WAS TO BE EXPECTED IN
VIEW OF THE PATENTLY PESSIMISTIC VIEWS OF THE
COMMISSION ABOUT THE POSSIBILITIES OF ANY PROGRESS ON
LIBERALIZATION IN THE PRESENT CLIMATE. IN ANY EVENT,
VAN LENNEP LOOKS TO THE USG FOR LEADERSHIP AND SUPPORT
IN CONNECTION WITH HIS TRADE-RELATED PROPOSALS AT THIS
OECD MEETING.

THE VAN LENNEP TRADE PROPOSALS

THE FOLLOWING IS OUR ATTEMPT TO SUMMARIZE A RATHER
DENSE SUMMARY CONTAINING MANY PROPOSALS. (FYI: WE
HAVE BEEN GIVEN AN ADVANCE COPY OF THE SECGEN'S
PROPOSALS IN STRICT CONFIDENCE. THEREFORE, THE
FOLLOWING SUMMARY SHOULD BE TIGHTLY HELD WITHIN USG.
END FYI) VAN LENNEP DIVIDES THE ISSUES INTO: (I)
MAJOR CURRENT TRADE ISSUES WHICH NEED TO BE HANDLED NOW
IN ORDER TO PRESERVE THE SYSTEM IN A SITUATION OF HIGH
UNEMPLOYMENT AND LOW GROWTH; (II) THE LONGER TERM AND
SYSTEMIC ISSUES WHICH WILL REQUIRE EXAMINATION EITHER
IN GATT OR IN THE OECD; AND (III) ISSUES THE OECD
MINISTERS SHOULD CONSIDER IN CONNECTION WITH THE
NOVEMBER GATT MINISTERIAL. THIS BREAKDOWN OF THE
COMPLEX AND VARIEGATED SUBJECT MATTER MAY BE
CONCEPTUALLY USEFUL BUT RESULTS IN SOME ISSUES BEING
TREATED IN TWO OR ALL THREE CATEGORIES. AND, OF
COURSE, THE BREAKDOWN COULD LEND ITSELF TO THE RISK
THAT THE MINISTERS WILL JUGGLE VARIOUS ITEMS BETWEEN
CATEGORIES. THE FOLLOWING IS AN OUTLINE OF THE ISSUES
IN EACH CATEGORY WITH OUR SUMMARY OF HIS ACTION
PROPOSAL FOR EACH ISSUE.

(i.) CURRENT ISSUES

A. TRADE RESTRICTIONS

1. SAFEGUARDS

- MINISTERS TO CONSIDER HOW DIFFERENCES
COULD BE NARROWED ON SAFEGUARD CLAUSE. IF GATT

MINISTERIAL CANNOT REACH FULL-FLEDGED SOLUTION,
MINISTERS SHOULD CONSIDER A LESS LEGAL MULTILATERAL
COMMITMENT AS INTERIM MEASURE.

2. EXPORT CARTELS

- MINISTERS TO REQUEST OECD EXAMINE
EXPORT CARTELS (IN VIEW OF LINK WITH VOLUNTARY EXPORT
RESTRAINTS) AND REPORT TO NEXT MINISTERIAL MEETING.

B. SUBSIDIES

1. EXPORT CREDITS - PRO MEM; NO ACTION YET
PROPOSED

2. EXPORT SUBSIDIES

ON AGRICULTURAL SUBSIDIES, MINISTERS
SHOULD STRESS IMPORTANCE OF TWO-PRONGED APPROACH OF
USING GATT TO ALLEVIATE CURRENT FRICTIONS AND
DEVELOPING LONGER TERM APPROACH (SEE BELOW) TO
ELIMINATE SPECIAL TREATMENT IN GATT.

ON INDUSTRY, REGIONAL, MANPOWER AND OTHER
DOMESTIC MEASURES WHICH PROVIDE SPECIFIC INCENTIVES TO
EXPORTS, MINISTERS SHOULD ENDORSE A PROPOSAL THAT OECD
TRADE COMMITTEE SHOULD STUDY AND REPORT BACK TO NEXT
MINISTERIAL COUNCIL.

3. DOMESTIC SUBSIDIES

MINISTERS SHOULD WELCOME AND SUPPORT
IMPLEMENTATION OF GATT CODE.

MINISTERS SHOULD STRENGTHEN OECD WORK ON
ADJUSTMENT PROBLEMS IN SHIPBUILDING, STEEL,
AUTOMOBILES, TEXTILES AND CLOTHING INDUSTRIES WITH A
VIEW TO OBTAINING TIME BOUND COMMITMENTS TO ADJUSTMENT
POLICIES.

MINISTERS SHOULD SUPPORT CONTINUATION OF
POSITIVE ADJUSTMENT WORK WITH SPECIAL ATTENTION TO
BT

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 01 PARIS 0028 DTG: 200533Z MAR 82 PSN: 004641
EOB781 AN010539 TOR: 079/0604Z CSN: CR1208

DISTRIBUTION: ISEC-01 /001 A3

WHTS ASSIGNED DISTRIBUTION:
SIT:
EOB:

OP IMMED
DE RUFHRA #0028 0790554
O 200533Z MAR 82
FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 2186
DEPARTMENT OF TREASURY WASHDC IMMEDIATE
USDOC WASHDC IMMEDIATE
USDA WASHDC IMMEDIATE
WHITE HOUSE IMMEDIATE

INFO ALL OECD CAPITALS
USMISSION GENEVA 8646

~~C O N F I D E N T I A L~~

LIMITED OFFICIAL USE SECTION 05 OF 09 PARIS 10028
INCREASED USE OF INVESTMENT, EMPLOYMENT AND INTEREST
RATE SUBSIDIES AND THEIR EFFECTS ON INTERNATIONAL TRADE.

- C. EAST/WEST TRADE - PRO MEM; NO ACTION YET
PROPOSED.

(11.) LONGER-TERM AND SYSTEMIC ISSUES

- A. FURTHER STEPS TO LIBERALIZE TRADE

- 1. SERVICES

- MINISTERS TO CONSIDER ACCELERATING PRESENT
WORK ON ASSESSING THE FACTUAL SITUATION IN SPECIFIC
SECTORS AND SETTING A TIMETABLE FOR CONSIDERATION OF
PROPOSALS FOR LIBERALIZATION.

- 2. AGRICULTURE

- MINISTERS SHOULD AGREE TO NECESSARY
STUDIES TO ENABLE NEGOTIATIONS TO GET UNDER WAY FOR A
GRADUAL AND PHASED REDUCTION OF OUTPUT-RELATED
PROTECTION IN A BALANCED WAY AS BETWEEN PRODUCTS AND
COUNTRIES BY, E.G., JANUARY 1, 1984.

- 3. TRADE IN HIGH-TECHNOLOGY PRODUCTS

- MINISTERS TO ASK THE INDUSTRY COMMITTEE TO
EXAMINE, IN COLLABORATION WITH THE TRADE COMMITTEE,
SPECIFIC PROBLEMS OF A TRADE OR TRADE-RELATED NATURE IN
THIS AREA (BUILDING ON WORK ALREADY DONE ON
TELECOMMUNICATIONS) WITH A VIEW TO REACHING
UNDERSTANDINGS OR GUIDELINES AND REPORT TO THE NEXT
MINISTERIAL ON PROGRESS MADE. THIS WORK PROGRAM WOULD
ALSO INCLUDE AN EXAMINATION WITHIN THE OECD OF EXISTING
OBSTACLES TO ACCESS TO TECHNOLOGY ACROSS NATIONAL
FRONTIERS TO DETERMINE WHETHER EXISTING INTERNATIONAL
AGREEMENTS ARE ADEQUATE. (POSSIBILITIES OF INCLUDING
JOINT VENTURES ARE BEING CONSIDERED BY SECGEN.)

- B. STEPS TO STRENGTHEN MULTILATERAL COOPERATION ON
TRADE AND TRADE-RELATED ISSUES.

- 1. MACRO-ECONOMIC POLICY AND TRADE POLICY
- WITH THE MOVE TOWARD MORE FLEXIBLE
EXCHANGE RATES, GATT ARTICLE XII AND IMF ARTICLE VII
HAVE BECOME NON-OPERATIONAL. THESE ARTICLES WERE
ORIGINALLY DESIGNED TO: (A) PROMOTE MACROECONOMIC
POLICIES AND PERFORMANCE WHICH HELP TO PREVENT THE
EMERGENCE OF TRADE PROBLEMS; AND (B) ENSURE THAT WHEN
MACROECONOMIC DIFFICULTIES LEAD TO TRADE MEASURES (OR
DOMESTIC MEASURES WITH EQUIVALENT EFFECT) THEY SHOULD
BE AS MARKET-CONFORMING AS POSSIBLE AND SHOULD BE
SUBJECT TO AN AGREED PROCESS OF MULTILATERAL
SURVEILLANCE.

- MINISTERS SHOULD CONSIDER STUDYING HOW ARRANGEMENTS FOR
COOPERATION BETWEEN THE GATT AND THE IMF MIGHT BE
STRENGTHENED TO RECTIFY THIS WEAKNESS. MINISTERS COULD
ALSO CONSIDER WHETHER PROCEDURES IN THE OECD SHOULD BE
STRENGTHENED TO ENSURE THAT, WHEN SERIOUS TRADE
DIFFICULTIES HAVE THE POSSIBILITY OF BEING EASED BY
ACTIONS IN MONETARY, FISCAL OR EXCHANGE RATE POLICIES
BY ONE OR MORE MEMBER COUNTRIES, THE POSSIBILITIES BE
CAREFULLY EXAMINED BY THE COMPETENT BODIES OF THE OECD.

- 2. TRADE POLICIES AND STRUCTURAL ADJUSTMENT
- MINISTERS SHOULD CONSIDER WHETHER A STUDY
SHOULD BE MADE ON HOW, AS THE SYSTEM ESTABLISHED BY THE
GATT CODES EVOLVES, THE WORK UNDER WAY IN INSTITUTIONS
SUCH AS THE OECD AND THE EC TO PROMOTE STRUCTURAL
ADJUSTMENT IN GENERAL AND IN PARTICULAR SECTORS COULD
MORE EFFECTIVELY COMPLEMENT AND SUPPORT THE WORK OF
BUILDING UP INTERNATIONAL DISCIPLINES IN THE GATT IN
THIS RESPECT.

- 3. TRADE-RELATED INVESTMENT ISSUES
- MINISTERS ARE REQUESTED TO CONSIDER TWO
QUESTIONS:
- WHAT WOULD BE THE BEST INSTITUTIONAL
BT

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 01 PARIS 0028 DTG: 200533Z MAR 82 PSN: 004642
EOB783 AN010541 TOR: 079/0606Z CSN: CR1209

DISTRIBUTION: 1SEC-01 /001 A3

WHTS ASSIGNED DISTRIBUTION:
SIT:
EOB:

OP IMMED
DE RUFHFR A #0028 0790555
O 200533Z MAR 82
FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 2187
DEPARTMENT OF TREASURY WASHDC IMMEDIATE
USDOC WASHDC IMMEDIATE
USDA WASHDC IMMEDIATE
WHITE HOUSE IMMEDIATE

INFO ALL OECD CAPITALS
USMISSION GENEVA 8647

~~CONFIDENTIAL~~

LIMITED OFFICIAL USE SECTION 06 OF 09 PARIS 10028
APPROACH TO ACHIEVE AN AGREED INTERNATIONAL FRAMEWORK
TO AVOID OR RESOLVE CONFLICTS ON TRADE-RELATED
INVESTMENT ISSUES AT THE GLOBAL LEVEL?

-
- COULD THE IMPLEMENTATION OF EXISTING
INTERNATIONAL INSTRUMENTS (E.G., NATIONAL TREATMENT,
GUIDELINES FOR MULTINATIONAL ENTERPRISES) BE
STRENGTHENED AND HOW COULD THIS BEST COMPLEMENT THE
EFFORTS NEEDED AT THE GLOBAL LEVEL?

-
- 4. INTERNATIONAL COOPERATION ON COMPETITION
POLICY

-
- MINISTERS MIGHT CONSIDER WHETHER THE 1979
OECD RECOMMENDATION ON THE INTERNATIONAL ASPECTS OF
RESTRICTIVE BUSINESS PRACTICES SHOULD BE REVISED TO:
WIDEN THE SCOPE FOR INITIATING CONSULTATIONS; LAY DOWN
CRITERIA AGAINST WHICH COMPLAINTS CAN BE EXAMINED, AND
STRENGTHEN PROCEDURES FOR CONCILIATION. MINISTERS
MIGHT ALSO CONSIDER A LONGER RANGE APPROACH UNDER WHICH
DIFFERENT CATEGORIES OF COUNTRIES WOULD PROGRESSIVELY
ACCEPT MORE SYSTEMATIC RIGHTS AND OBLIGATIONS.

-
- C. STEPS TO STRENGTHEN THE CONSTITUENCY AGAINST
PROTECTIONISM

-
- 1. MINISTERS MIGHT WISH TO URGE THAT EXISTING
WORK IN THE GATT, OECD AND ELSEWHERE ON COLLECTING AND
ANALYZING INFORMATION ON THE COSTS AND BENEFITS OF
TRADE AND TRADE-RELATED MEASURES SHOULD BE INTENSIFIED,
CONSIDERING ALSO WHETHER EXISTING ECONOMIC RESEARCH
INSTITUTES COULD CONTRIBUTE MORE TO THIS WORK.

-
- 2. MINISTERS COULD EXAMINE: THE USEFULNESS
OF CREATING (WITHIN THE FRAMEWORK OF BIAC) A VEHICLE
WHEREBY THE INTEREST OF TRADERS AND IMPORTERS ARE MORE
EFFECTIVELY HEARD IN THE OECD WORK ON TRADE
RESTRICTIONS AND RBP'S AFFECTING INTERNATIONAL TRADE,
AND WHETHER THE CONSUMER POLICY COMMITTEE SHOULD BE
ASKED TO EXAMINE DESIRABILITY AND POSSIBILITIES OF
CREATING A CONSUMER ADVISORY COMMITTEE.

- 3. REGARDING THE "FAIR LABOR STANDARDS"
ISSUE, MINISTERS COULD CONSIDER WHETHER THEY SHOULD NOT
PUBLICLY REJECT CALLS FOR A SOCIAL CLAUSE IN THE GATT
WHILE EXPRESSING FULL SUPPORT FOR ILO WORK.

- D. BRINGING THE DEVELOPING COUNTRIES MORE FULLY
INTO THE WORLD TRADING SYSTEM

-
- 1. GIVEN THE DIFFICULT SUBSTANTIVE NATURE OF
THE PROBLEMS INVOLVED, MINISTERS MIGHT CONSIDER THE
DESIRABILITY OF A MORE FOCUSED INITIATIVE BY THE
INDUSTRIALIZED COUNTRIES FOR AN APPROACH DESIGNED TO
BUILD UP THROUGH APPROPRIATE CONSULTATIVE PROCEDURES AN
EFFECTIVE LINK BETWEEN COMMITMENTS TO REFORMED AND
REDUCED PROTECTION BY THE MORE ADVANCED DEVELOPING
COUNTRIES WITH INCREASED CERTAINTY FOR THEIR ACCESS TO
DC MARKETS.

-
- 2. IF MINISTERS AGREE TO SUCH APPROACH, THEY
COULD CONSIDER HOW IT COULD BE FURTHER DEVELOPED, HOW
IT MIGHT BEST BE INITIATED AT THE GATT MINISTERIAL AND
WHAT FOLLOWUP PROCEDURES MIGHT BE NEEDED TO ASSURE
EFFECTIVE IMPLEMENTATION.

-
- (III.) ISSUES FOR THE GATT MINISTERIAL

-
- A. MINISTERS MAY WISH TO HEAR A REPORT ON
PREPARATIONS FOR THE GATT MINISTERIAL AND CONSIDER THE
FOLLOWING QUESTIONS:

-
- 1. WHAT WOULD BE THE BEST WAY OF HANDLING THE
SAFEGUARD ISSUE, GIVEN THE CONTINUING DIFFERENCES OF
VIEW AMONG THE INDUSTRIALIZED COUNTRIES?

-
- 2. WHAT SHOULD BE THE APPROACH TO THE
PROBLEMS IN TRADE RELATIONS WITH THE DEVELOPING
COUNTRIES DISCUSSED ABOVE.

-
- 3. HOW SHOULD THE ISSUE OF SERVICES BE
HANDLED AND, IN PARTICULAR, HOW AND AT WHAT TIME SHOULD
DEVELOPING COUNTRIES BE BROUGHT INTO THIS EXERCISE?

-
BT

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

14

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 01 PARIS 0026 DTG: 200533Z MAR 82 PSN: 004643
EOB784 AN010542 TOR: 079/0600Z CSN: CR1210

DISTRIBUTION: ISEC-01 /001 A3

WHTS ASSIGNED DISTRIBUTION:

SIT:

EOB:

OP IMMED
DE RUFHRA #0028 0790557
O 200533Z MAR 82
FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 2188
DEPARTMENT OF TREASURY WASHDC IMMEDIATE
USDOC WASHDC IMMEDIATE
USDA WASHDC IMMEDIATE
WHITE HOUSE IMMEDIATE

INFO ALL OECD CAPITALS
USMISSION GENEVA 0648

~~C O N F I D E N T I A L~~

LIMITED OFFICIAL USE SECTION 07 OF 09 PARIS 10028

4. ON AGRICULTURE, IF AGREEMENT IS REACHED ON AN APPROACH ALONG THE LINES INDICATED ABOVE, HOW SHOULD THIS BE BEST DEVELOPED AT THE GATT MINISTERIAL?

5. HOW SHOULD THE TRADE-RELATED INVESTMENT ISSUES BE HANDLED IN THE GATT?

B. SCENARIO: HOW THE TWENTY-FOUR MINISTERS WILL BE ABLE TO FOCUS ON THIS RICH MENU IN THE TIME ALLOTTED IS NOT YET CLEAR. THERE WILL BE PRELIMINARY VETTING IN TRADE COMMITTEE (APRIL 15-16) AND EXECUTIVE COMMITTEE IN SPECIAL SESSION (APRIL 22-23). THE SUMMARY OF PROPOSALS WILL PROBABLY BE FURTHER WINNOWNED AND REORGANIZED. IN THE PREPARATION PROCESS, THE PRESENTATION OF PROPOSALS WILL BE CONVERTED INTO COMMUNIQUE LANGUAGE RECORDING MINISTERIAL AGREEMENT, AND POSSIBLY, ALTHOUGH NOT NECESSARILY, PROCEDURAL RESOLUTIONS ON SOME OF THE MATTERS ON WHICH GREATER PRECISION OR GREATER CONFIDENTIALITY IS NEEDED. THIS PART OF THE MEETING WILL BE OPENED BY THE SEC GEN. THERE MAY BE INTRODUCTORY COMMENTS FROM THE CHAIRMEN OF THE TWO AFORE-MENTIONED COMMITTEES. IT IS EXPECTED THAT US, EC AND JAPAN WILL BE LEAD SPEAKERS ON THIS ITEM. TO ORGANIZE DISCUSSION INTO A COHERENT PATTERN WILL DEPEND ON SUCCESS IN EFFECTIVELY NARROWING DISAGREEMENTS PRIOR TO BEGINNING OF THE MEETING.

C. ISSUES: DO WASHINGTON AGENCIES CONSIDER VAN LENNEP TO BE ON RIGHT TRACK? WHAT ARE THE MAJOR ISSUES WHICH WE WANT TO EMPHASIZE AND ON WHICH WE SHOULD URGE HIM TO BE MORE CAUTIOUS? ON THE LATTER, OF COURSE, WASHINGTON AGENCIES SHOULD BE AWARE THAT ALTHOUGH SOME OF THE ITEMS MAY NOT BE STATED IN THE TERMS THAT WE WOULD LIKE, NOTABLY THE RELATIONSHIP BETWEEN MACROECONOMIC POLICY AND TRADE POLICY, THE ISSUES THEMSELVES HAVE BEEN POSED AND ARE CONSIDERED SERIOUS BY SOME OR MANY GOVERNMENTS. WE SHOULD CONCENTRATE THEREFORE ON THE "BOTTOM LINE" THAT WE WANT VAN LENNEP TO PROPOSE TO THE MINISTERIAL MEETING.

5. AGRICULTURAL TRADE ISSUES

A. DISCUSSION: AGRICULTURAL TRADE ISSUES WILL BE KEPT AS A SEPARATE AGENDA ITEM AT THE MINISTERIAL. THE REFERENCE DOCUMENT WILL BE THE RECENTLY COMPLETED "STUDY ON PROBLEMS OF AGRICULTURAL TRADE" CO-PRODUCED BY TRADE AND AGRICULTURE. VAN LENNEP HOPES TO USE THE MAJOR CONCLUSION OF THIS STUDY, I.E., THAT ADJUSTMENTS IN DOMESTIC POLICIES SHOULD BE PLANNED AND COORDINATED WITHIN A CONCERTED MULTILATERAL APPROACH AIMED AT REDUCING PROTECTIONISM AND LIBERALIZING TRADE, TO CONTRIBUTE TO THE OVERALL DISCUSSION ON TRADE IN THE '80'S.

B. SCENARIO: SINCE MULDOON OF NEW ZEALAND WILL BE IN THE CHAIR, IT IS LIKELY THAT HE WILL TRY TO DEVOTE A SET PORTION OF THE TIME ON THE SECOND DAY TO A DISCUSSION OF AGRICULTURE.

C. ISSUES: DOES WASHINGTON AGREE WITH THE PROCEDURAL SUGGESTIONS ON AGRICULTURAL TRADE MADE BY THE SECRETARIAT IN CONNECTION WITH THE TRADE STUDY AS SET FORTH ABOVE?

6. EAST-WEST ECONOMIC RELATIONS:

A. DISCUSSION: AT THE JANUARY XCSS MEETING, VAN LENNEP IDENTIFIED THREE MAJOR EAST-WEST ECONOMIC ISSUES FOR INCREASED ATTENTION AT THE OECD: EXPORT CREDITS, DEBT AND COUNTERTRADE. AS A RESULT OF THE KISSINGER INITIATIVE AT THE 1976 MINISTERIAL, THE ORGANIZATION IS ALREADY ENGAGED IN TECHNICAL WORK ON SEVERAL ASPECTS OF EAST-WEST ECONOMIC RELATIONS, E.G., DATA COLLECTION ON EAST EUROPEAN TRADE (BOTH EAST-WEST AND EAST-SOUTH) AND DEBT LEVELS, MONITORING OF WESTERN LENDING TO COMECON COUNTRIES, ANALYSIS OF EAST-WEST TECHNOLOGY TRANSFER, AND REPORTING ON EAST EUROPEAN ECONOMIC PERFORMANCE. VAN LENNEP NOW WISHES TO PROMOTE GREATER ATTENTION TO THE POLICY ASPECTS OF EAST-WEST ECONOMIC RELATIONS. VAN LENNEP EXPLAINED TO MEMBERS OF THE BUCKLEY MISSION THIS WEEK THAT THE MAJOR ISSUE IN EAST-WEST ECONOMIC RELATIONS IS THAT IN CERTAIN RESPECTS THE WEST HAS BECOME UNDUPLY DEPENDENT ON THE EAST AND THAT THE

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

15

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 01 PARIS 0028 DTG: 200533Z MAR 82 PSN: 004644
EOB785 AN010543 TOR: 079/0610Z CSN: CR1211

DISTRIBUTION: ISEC-01 /001 A3

WHTS ASSIGNED DISTRIBUTION:
SIT:
EOB:

OP IMMED
DE RUFHRA #0028 0790558
O 200533Z MAR 82
FM ANEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 2189
DEPARTMENT OF TREASURY WASHDC IMMEDIATE
USDOC WASHDC IMMEDIATE
USDA WASHDC IMMEDIATE
WHITE HOUSE IMMEDIATE

INFO ALL OECD CAPITALS
USMISSION GENEVA 8649

~~CONFIDENTIAL~~

LIMITED OFFICIAL USE SECTION 08 OF 09 PARIS 10028
POLITICAL AND ECONOMIC ASPECTS OF THESE RELATIONS ARE
TIGHTLY LINKED. VAN LENNEP DOES NOT BELIEVE THE OECD
CAN BECOME INVOLVED IN THE POLITICAL ASPECTS (E.G.,
SANCTIONS), BUT SEES AN EXPANDED ROLE FOR THE
ORGANIZATION IN POLICY ACTION ON EXPORT CREDITS, DEBT
AND COUNTERTRADE, WHICH ARE SYMPTOMATIC OF THE OVERALL
ECONOMIC INTERDEPENDENCE OF EAST AND WEST.

REGARDING EXPORT CREDITS, ACTION WILL PROCEED ON VAN
LENNEP'S ORIGINAL PROPOSAL TO PARTICIPANTS IN THE
ARRANGEMENT ON EXPORT CREDITS AND ON THE EC INITIATIVE
TO RAISE INTEREST RATES ON CREDITS EXTENDED TO THE
USSR. ON DEBT, AN IMPROVED DATA BASE CAN PROVIDE THE
BASIS FOR BETTER-INFORMED POLICY LEVEL DEBATE ON
SPECIFIC DEBT-CRISIS COUNTRIES. IN THE FIELD OF
COUNTERTRADE, THE OECD WILL BUILD ON ITS MAJOR STUDY OF
THIS ISSUE, AND COULD RECOMMEND FURTHER COORDINATED
ACTION BY MEMBER COUNTRIES.

B. SCENARIO: EAST-WEST ECONOMIC RELATIONS IS NOW A
SEPARATE SUB-ITEM ON THE MINISTERIAL DRAFT AGENDA.
HOWEVER, IT IS LIKELY TO BE DELETED, WITH EAST-WEST
ISSUE SUBSUMED UNDER A GENERAL HEADING ON "RELATIONS
WITH NON-MEMBER COUNTRIES, PARTICULARLY LDCs."
EAST-WEST WILL PROBABLY FIGURE IN DISCUSSIONS ON TRADE
AS WELL. REGARDLESS OF EAST-WEST'S STATUS ON THE
AGENDA, VAN LENNEP HAS SIGNALLED THAT HE WOULD LIKE
THIS ISSUE DISCUSSED AT THE MINISTERIAL. MANY OF OUR
EUROPEAN ALLIES ALSO BELIEVE THAT THE OECD IS A LOGICAL
FORUM TO TAKE UP SOME ASPECTS OF EAST-WEST RELATIONS.
THE U.S. MUST THEREFORE ASSURE THAT ANY EAST-WEST
ACTIVITIES UNDERTAKEN AT THE OECD ARE SUPPORTIVE OF
INITIATIVES WE ARE ADVANCING BILATERALLY OR IN OTHER
INTERNATIONAL ORGANIZATIONS.

C. ISSUES: WHAT ARE WASHINGTON'S VIEWS ON HAVING OECD
INTENSIFY WORK ON:

(1.) DEBT: THE OECD SECRETARIAT WILL SEEK ENDORSEMENT
FOR IMPROVING ITS DATA BASES ON EAST EUROPEAN DEBT, AND
WILL SEEK POLICY DISCUSSIONS ON FINANCIAL MANAGEMENT OF
THIS.

(II.) EXPORT CREDITS: THIS IS A POLITICALLY LOADED
ISSUE, PARTICULARLY IN REGARD TO SEEKING A GENERAL
AGREEMENT TO REDUCE THE LEVEL OF CREDITS TO THE USSR
AND BLOC COUNTRIES. THE OECD WILL ALSO CONTINUE TO
FOCUS ON INTEREST RATES.

(III.) COUNTERTRADE: THE OECD HAS EXPERTISE IN THIS
FIELD AND IS BEST EQUIPPED TO FURTHER DISCUSSION ON
POSSIBLE WESTERN MEASURES TO COUNTERACT TRADE PRACTICES
WHICH ARE OPERATED UNILATERALLY BY THE EAST EUROPEAN
SIDE.

7. NORTH-SOUTH ECONOMIC RELATIONS:

A. DISCUSSION: STALLED ACTION IN THE UN DN GLDBAL
NEGOTIATIONS (GN) CONTINUES TO OCCUPY CENTRAL FOCUS IN
NORTH-SOUTH RELATIONS. ALTHOUGH G-77 CONTINUES TO WORK
ON COMPROMISE TEXT FOR UNGA ENABLING RESOLUTION, IT
APPEARS UNLIKELY THAT SUBSTANTIAL PROGRESS WILL BE MADE
PRIOR TO MINISTERIAL. AT SAME TIME, A NUMBER OF
SCHEDULED MEETINGS OF SPECIALIZED FORA, SUCH AS GATT
MINISTERIAL AND UNCTAD VI, WILL DRAW ATTENTION FROM
UNGA STALEMATE AND OFFER OPPORTUNITY FOR ACTION OUTSIDE
GN CONTEXT. IN THIS ENVIRONMENT, IT IS DIFFICULT TO
PREDICT WITH CONFIDENCE THE FULL RANGE OF ISSUES THAT
MIGHT BE RAISED. VAN LENNEP HAS NOT YET EXPRESSED ANY
SPECIFIC VIEWS ON THIS AGENDA ITEM. HOWEVER, IT SEEMS
ALMOST CERTAIN THAT, AT MINIMUM, SOME MEMBERS WILL WISH
TO SEE POSITIVE STATEMENT ON GN EMERGE FROM MEETING AND
POSSIBLY SOME IDENTIFICATION OF "PARALLEL" ACTIONS TO
BE PURSUED IN INTERIM. THE EUROPEANS AND MOST OTHERS
MAY BE INCLINED TOWARD STRONGER STATEMENTS OF SUPPORT

FOR GN THAN WE WOULD WISH. OUR TASK WILL BE TO FIND A
CONSENSUS ON COMMUNIQUE LANGUAGE THAT IS CONSISTENT
WITH AND, TO EXTENT FEASIBLE, EXPLICITLY SUPPORTS THE
PRESIDENT'S UNDERSTANDINGS ON GN, AS EXPRESSED AT
CANCUN. WE WILL WISH TO SUPPORT THE NOTION OF MOVING
AHEAD IN PRACTICAL WAYS AND VIA "PARALLEL" NEGOTIATIONS
TOWARD ACHIEVING IMPORTANT DEVELOPMENT GOALS IN FIELDS
SUCH AS AGRICULTURE, ENERGY AND TRADE. TO EXTENT IT IS
NOT INCLUDED UNDER TRADE DISCUSSION, WE WILL WANT TO
BT

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 01
EOB788

PARIS 0028
AN010544

DTG: 200533Z MAR 82 PSN: 004652
TOR: 079/0615Z CSN: CRI215

DISTRIBUTION: ISEC-01 /001.A3

WHTS ASSIGNED DISTRIBUTION:
SIT:
EOB:

OP IMMED
DE RUFHFRA #0028 0790559
O 200533Z MAR 82
FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 2190
DEPARTMENT OF TREASURY WASHDC IMMEDIATE
USDOC WASHDC IMMEDIATE
USDA WASHDC IMMEDIATE
WHITE HOUSE IMMEDIATE

INFO ALL OECD CAPITALS
USMISSION GENEVA 8650

~~C O N F I D E N T I A L~~

LIMITED OFFICIAL USE SECTION 09 OF 09 PARIS 10028
EMPHASIZE IMPORTANCE OF BRINGING LDCS INCREASINGLY INTO
FREE TRADING SYSTEM, AND IN THIS CONNECTION, HIGHLIGHT
THE IMPORTANCE OF THE GATT MINISTERIAL. WE WILL ALSO
WISH TO STRESS IMPORTANCE OF DOMESTIC POLICY AND
PRIVATE SECTOR TO DEVELOPMENT. WE MAY HAVE TO CONTEND
WITH DESIRES OF COME TO INCLUDED IN COMMUNIQUE
STATEMENTS ON AID INCREASE, MDB REPLENISHMENTS, THE
PROPOSED IBRD ENERGY AFFILIATE, ET AL. WE WILL HAVE TO
SORT OUT DEGREE OF SUPPORT WE CAN LEND TO CERTAIN
PDINTS AND WILL HAVE TO NEGOTIATE THE DELEGATION OF
OTHERS.

-
B. SCENARIO: NO THOUGHT HAS BEEN GIVEN AS YET AS TO
HOW THIS WILL BE HANDLED. -

-
C. ISSUES:

-
(I.) HOW STRONG A STATEMENT OF ENDORSEMENT FOR GN ARE
WE WILLING TO SEE IN COMMUNIQUE?

-
(II.) DO WE WANT TO PUSH PARALLEL ACTION APPROACH?
APART FROM TRADE, AGRICULTURE AND ENERGY, ARE THERE
OTHER ASPECTS OF INTERDEPENDENCE THAT WE WOULD LIKE TO
SEE EMPHASIZED IN DISCUSSION AND COMMUNIQUE AND
IDENTIFY FOR FUTURE OECD WORK?

KATZ
BT

~~CONFIDENTIAL~~

File 17
France
Summit
(issues)

TRADE OBJECTIVES AT VERSAILLES

U.S. Objectives

In the communique at Versailles, we should seek to achieve a substantial statement on trade 1) establishing a broad set of principles and directions for trade efforts throughout the rest of the 1980s and 2) endorsing the GATT Ministerial as a first step in this process. If we succeed, Versailles should do for trade what Venice did for energy.

Versailles should concentrate on trade commitments and goals for the rest of the decade. These goals should assume revitalization of the national and world economies and should therefore be relatively ambitious. By contrast, the GATT Ministerial should establish priorities and phased work programs for specific trade issues. It will necessarily be somewhat more modest given prevailing economic circumstances, but in light of the Versailles Summit commitments, it will now be seen only as a first step. This combination of ambitious goals at Versailles and modest first steps at GATT enables us to finesse the resistance generated by sluggish economic conditions and avoid charges of the Summit interfering in the preparations for the GATT Ministerial, while using the Summit to generate early momentum for the Ministerial and to outline an ambitious course for trade talks beyond the Ministerial as economic conditions improve.

DECLASSIFIED

NLRR 007-081 1/5/11b

Broad Goals at Versailles

The communique should devote a substantial section to trade such that trade brings a long-term perspective to what Versailles says about the international economy just as technology, stressed by the French, lends a long-term perspective to domestic policies. The following points on trade should be developed in the communique:

1. The international trading system stands at an historic crossroads.
2. The problem we face is defined on the one hand by the unprecedented progress we have achieved in the reduction of tariff barriers and quotas in industrial trade and on the other by the apparent end of the era of domestic growth on which the expansion of trade has been based. With further tariff reductions in industrial products relatively meaningless, the trading system has lost a principal rationale for liberalization. Tariff rate reductions were widely viewed as being mutually advantageous. Nontariff barrier reductions are not, in part because they are often closely interrelated with domestic economic and social objectives. The apparent end of the era of growth has reinforced the priority of domestic objectives, creating a vicious circle which blocks further trade liberalization and even threatens to unravel past achievements. The end result is a

drop in the real volume of world trade in 1981 for the first time since World War II.

3. The way out of this dilemma is two-fold: 1) revitalize domestic growth through sound, fundamental domestic policies in both industrial and developing countries; 2) reaffirm and extend the principle of liberalization of trade over the longer term to other sectors and to additional countries (i.e. getting more LDCs into GATT). Both steps are necessary, since new investment and growth in many countries now depend on predictable access to foreign markets and trade, as the historical record shows, flourishes only on a foundation of domestic growth.
4. The Summit countries therefore declare that the general predisposition toward liberalization of trade and open access to markets remains the hallmark of their cooperation in international economic relations.
5. The Summit countries affirm that GATT is the indispensable institutional guardian of this commitment to liberalization and should be strengthened and improved to provide the essential discipline for unilateral, bilateral, regional and global actions on trade.
6. Strengthening GATT alone, however, is not enough. Its disciplines and benefits should be extended to

new sectors, such as services, investment, high technology, and agriculture, as well as to new members such as the developing nations.

7. The Summit countries will give special priority in this decade to bringing the developing countries more fully into the global trading system, recognizing that expanding the scope of the GATT system offers the same benefits of mutual advantage to all that further liberalization does.
8. The Summit countries declare that further liberalization beyond existing areas covered by GATT will benefit all countries and should be pursued over the longer run in such areas as services, investment, high technology, and agriculture. What is important here is the predisposition toward liberalization not the specific or immediate goals of total elimination of government programs in these areas.
9. In the spirit of these historical and future commitments, the Summit countries strongly endorse the GATT Ministerial in November 1982 and pledge their full support and active participation in this important meeting. They view this Ministerial as a first step in the longer-term effort to maintain and accelerate the momentum toward growth and global free trade throughout the rest of this decade.

THE WHITE HOUSE
Office of the Press Secretary

File
France
Summit
(Issues)
S-W

For Immediate Release

March 22, 1982

REMARKS OF THE PRESIDENT
TO
AGRICULTURAL EDITORS
AND OTHER
AGRICULTURAL REPRESENTATIVES

Room 450 Old Executive Office Building

3:18 P.M. EST

THE PRESIDENT: Jack, thank you very much, and thank all of you very much and welcome to the White House. It isn't really technically that -- I know that there is a street in between but this is part of that same shop over there too.

We are delighted to have you for these briefings and I have been looking forward to meeting you personally. Now I can say that I have met the one group that hears as many complaints as I do. I think it was Thomas Jefferson who said that, "Farmers are God's chosen people," but nowadays they must be asking, chosen for what? I have always thought that when we Americans get up in the morning and see bacon and eggs and toast and milk on the table, we should give thanks that American farmers are survivors. They are the real miracle workers of the modern world. They are keepers of an incredible system based on faith, freedom and hard work that feeds us and sustains millions of the world's hungry as well.

I am told that in 1820 a farm worker produced enough food products for himself and three other people. By 1920 he produced enough for eight people, and now the number that he feeds has risen to seventy-seven. Agriculture has also become one of our biggest employers -- the meal ticket for millions of workers from farm suppliers, bankers, hired hands, all the way through the system to supermarket clerks.

In 1981 the \$28 billion agricultural trade surplus offset almost half of our petroleum deficit. In fact our agricultural exports account for about 40 percent of the world's total agricultural trade and one fifth of America's merchandise export earnings. This bounty from our nation's farms has been a little too easy for us to take for granted. We have never really had nationwide food shortages. Our share of income spent for food is among the lowest of any nation and our farmers keep on increasing their productivity.

I believe that our administration is lucky to have an Illinois farmer named Jack Block, who never lets me or any member of our Cabinet forget our farmers. Through your group I would like to thank the farmers of America for so strongly supporting our economic recovery program. You know, our plan is a little like farming -- you prepare the ground, you plant the seeds, you tend the field and weed it, and then you hope the harvest will bring a bumper crop -- in this case for the American economy.

As a part-time rancher myself I share an appreciation for this system. A chance to own your own land, to work it by the sweat of your brow, and take risks for profits. So often we forget the risks they are taking. A drought or a terrible storm is usually little more than a temporary inconvenience for city dwellers. For farmers it can mean a whole year's work and investment wiped out.

Maybe some of you know this story, but I remember when Ezra Taft Benson was Secretary of Agriculture under Eisenhower. He was making a tour of a farm area and in one he was assailed by one particular farmer who just would not stop complaining. He had all sorts of things that were wrong, and the Secretary kind of turned to an aide and looked at some papers and then turned back to him and he said, "Well, now wait a minute. You didn't have it so bad last year. You got 29 inches of rain this last year." And the farmer said, "Yes, I know. I remember the night it happened." (Laughter.)

MORE

Right now many of our farmers must be wondering if the sky hasn't fallen. I know that this is an extremely difficult period for them. The U.S. agriculture is in the third straight year -- the third year of an economic recession, and a vicious cost-price squeeze, high interest rates, and uncertain markets have combined to erode many farmers' confidence and hopes for prosperity.

I have to personalize and tell you, that cost-price squeeze, I learned a little bit about that one day. I bought a tractor second-hand many many years ago in 1953 for \$1200. And it now and then needs a little help along the way, but it is still there and working. But I was tempted, so up came a fellow who said that he would make a good deal, and he did. He offered me \$4000 trade-in on that tractor. And this was just recently, and all I would have had to do is give him \$13,000 more and I would have had a new tractor. (Laughter.) I know about the cost-price squeeze.

But the tragedy

MORE

of what is going on right now is that much of this misery didn't have to happen.

I believe the first body blow to agriculture fell in January 1980 when contracts for the sale of our farm products to the Soviet Union were blocked in retaliation for its invasion of Afghanistan. The impact was immediate and severe. Farm prices declined and our entire agricultural marketing system, elevators, barge lines, railways, millers, exporters was disrupted.

According to both private and government estimates, billions of dollars in output and services were lost. Thousands of jobs were lost. And taxpayers immediately had to shell out more than \$2 billion to help soften the blow.

Other countries didn't hesitate to increase their production and displace U.S. sales.

No one knows for sure what the ultimate impact of that ill-advised embargo will be because such actions effect trade patterns for years.

Now, it's also worth noting that the Soviets are still in Afghanistan suppressing an innocent people who yearn to be free. And while the Soviets experience some economic problems, that predicted cutback in their meat production never materialized as a result of our action.

By increasing grain imports from other sources, by seeking out meat imports from other countries and by expanding the use of substitute feeds, the Soviets were able to maintain their meat inventories.

Now, don't get me wrong, there may come a day when our national security is threatened and the issue of an embargo is raised again.

In that case, I would not hesitate to declare such an embargo.

Thank you. I never usually do that. But I don't know what's in there right now.

But only if it were part of a complete boycott and if we could have the cooperation of other nations so that we wouldn't end up hurting ourselves with no harm done to those we were trying to influence.

I should have waited for a laugh line to do that. (Laughter.) I don't know whether I got any more in here though. (Laughter.)

The bottom line is the Soviet embargo was bad for our farmers, bad for our economy, but not that bad for the agressors we were supposedly going to punish.

On top of the Soviet embargo, farmers were hard hit by the policies of the late '70's that led to sharing inflation and interest rates. Inflation went from 4.8 percent in 1976 to 12.4 percent in 1980. And during that period, interest rates shot all the way up from 6.5 percent to 21.5 percent.

The farmer, like any other small businessman lives or dies on his ability to sustain an adequate cash flow. And when that cash flow is reduced to a trickle by high inflation and interest rates, the farmer sometimes has no option but to shut down his operation.

And to all this, the recent bumper crops, the -- we understand why the cost-price squeeze is so bad and threatens to strangle the vitality of American agriculture.

Prices received by farmers have gone up five percent since 1979. Prices paid by farmers have gone up by 25 percent -- or 20 percent, I should say -- four times as much in this period.

One other problem I didn't mention is that excellent weather overseas has created a large worldwide surplus. The one exception, of course, is the Soviet Union.

You know, I can hardly remember a year when Soviet harvests were not victimized by bad weather. And I've seen a lot of harvest seasons as I'm constantly being reminded.

And I'm determined to do everything that I can to help our farmers get out of their terrible bind. I've listened, asked questions and probed for answers.

I think we know what needs to be done to get agriculture back on track. One of the first things is to make the federal government get its own house in order so we can reduce its claim on our national resources and end its interference with the marketplace.

That's what our economic recovery program is all about. And let me say again how grateful we've been to receive the strong support of the farm community. In our first 12 months, we've cut nearly in half the growth in federal spending. The inflation rate has dropped to 8.9 percent and since October 1st, it's running about 4.1 percent.

Last year's drop in inflation means that an American family of four earning the median income of \$24,000 had \$754 more in purchasing power than if inflation had not come down.

Prime interest rates were 21.5 percent, as I said, at the end of 1980. We've got them down by 5 percentage points.

They're still much too high. But if everyone stiffens their spine and does what still needs to be done on spending, we'll bring those interest rates down more.

The growth in regulations has been cut by a third. My goodness, I can remember that nest of

MORE

regulations some years ago, a fellow running an oil station on a chosen route in the East here down to Florida and right around the Mason-Dixon Line. And he had a little patch of -- triangle of ground between the -- where the driveways and the sidewalk and the street met. So he planted a few cotton bushes in there, and then when he'd see a license plate coming in from up north, he'd give them a cotton boll off one of those bushes as a souvenir of their crossing the Mason-Dixon Line. He was hailed in by the government because he was planting cotton without an allotment. (Laughter.)

Personal and business taxes have been reduced to stimulate savings, investment, work effort and productivity. The provisions for accelerated depreciation will benefit many small enterprises in agriculture. The 25 percent personal rate reduction helps the small firms that pay their taxes by personal rates, not corporate rates. And this is another reason why that personal tax cut must be protected.

One of the features of our tax program that I'm most proud of addresses a special problem for farmers and family-owned businesses. It's not right that widows and children must lose just to pay Uncle Sam what generations of love and toil created. So the estate tax exemption will increase to \$600,000 by 1987 and an even greater help, there will be no estate tax for a surviving spouse -- the widow or widower.

We know that the federal government also has an important role to play as partner to the farm community. I think the gist of that role is to help the farmer do what he can't do on his own -- promote basic research, seek out new markets, counterfeited any -- or counter any unfair trade practices of our trading partners, provide a measure of protection from erratic weather and natural disasters, and create the proper environment so the forces of supply and demand can more efficiently allocate resources. We're fully committed to do this.

We have increased the Fiscal Year '83 budget for agricultural research by nearly 3 percent above the inflation rate. We've expanded a federal crop insurance program. We've proposed a \$4 million increase in the Department of Agriculture's market development program and recommended that the level of agricultural export credit guarantees be maintained at the highest level in history: \$2.5 billion.

We ended the previous administration's Soviet embargo and withstood pressures to impose agricultural trade sanctions during the Polish crisis.

We have also set out a blueprint to challenge unfair agricultural trade practices by Japan and the European Economic Community. We're challenging in the GATT the European Community's open-ended use of export subsidies on certain agricultural products where we feel they've gained an inequitable share of world trade as a result of those subsidies.

We're pressing the Japanese to remove non-tariff trade barriers that prevent us from fully benefiting from our comparative advantage in agricultural production.

A U.S.-Japan working party will meet in Washington the week of April 12th to discuss the GATT consistency of Japan's agricultural quotas with a view toward liberalizing those restrictions.

In the past eight years, our stop-and-go export actions have weakened our reputation as a reputable supplier. If we're to take full advantage of our agricultural resources, we must establish a clear policy for the benefit of our farmers, those who market our crops and those who buy our commodities at home and abroad.

And for this reason, I am presenting today our long-term policy on farm exports. The agriculture export policy of the United States will ensure three essential priorities.

First, no restrictions will be imposed on the exportation of farm products because of rising domestic prices. Farm prices go up and farm prices go down. High prices signal market-oriented

farmers to produce more and they will if we allow them to compete freely in export markets. This is best for everyone from farmer to consumer.

Second, farm exports -- as I've already indicated -- will not be used as an instrument of foreign policy except in extreme situations and as part of a broader embargo.

Agricultural commodities are fungible; that is, they are easily interchanged for the same commodity from other nations. For this reason the embargo of 1980 was almost totally ineffective, and yet it caused great economic hardship to U.S. agriculture. And we won't repeat such an action.

Third, world markets must be freed of trade barriers and unfair trade practices. We must continue to pursue this objective aggressively. World economic health will be improved and strengthened by freer agricultural trade.

MORE

Our great agricultural system must be turned loose to benefit not only Americans but people throughout the entire world. Now, I announce this policy with a great sense of pride -- the pride in the accomplishments of U.S. farm families. Adherence to this policy will bring them deserved credits and add to the prosperity of all Americans that enhance the cause of peace throughout the world.

During the first year of our administration, I think we've turned an historic corner. We're ending the destructive inflation and financial disorders of the '70's. We're restoring incentives for personal enterprise. And we've begun to dismantle the regulatory strait-jacket and reverse the dangerous erosion of our military strength.

Our recovery program was passed too late to avert the present painful slump brought about by past pump-priming and those 21 1/2 percent interest rates. There's no quick fix for the economy or for our farmers. Weather will still be a major factor in determining when prices make a recovery. Some farmers will not make it through this difficult period of readjustment. But I think the vast majority will. And they're going to discover a better environment to conduct their business and realize a meaningful product.

I am not going to turn my back on the farmers of America and undo all the good that we've begun to put in place. If we stay on course and shun retreat, we'll bring prosperity back to our farmers and to the nation's economy.

Now, I again thank you very much for coming today and I understand that I'm getting run out of here now for another meeting. But Jack Block is going to stay with you. You might have some questions that you'd like to ask and Jack will take care of that while I move on.

Again, thank you for being here. (Applause.)

END

3:35 P.M. EST

~~SECRET~~

Nav 28

MEMORANDUM

1866

NATIONAL SECURITY COUNCIL

March 22, 1982

~~SECRET~~

ACTION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *MB*

SUBJECT: Report on the Buckley Mission

File France Summit (closed) G.W.

In any reporting on the so-called "Buckley Mission" to Europe, I will be operating on the assumption that you will be interested in the results of the trip and recommendations for next steps. If you also want detailed discussions of each meeting, please so indicate. (U)

As indicated in the cable I sent from Brussels (Tab A), the Germans and the French were by far the most negative, with the English and Italians indicating much greater willingness to be cooperative. (S)

In Brussels, we met with the North Atlantic Council, the EC Commission and Belgian officials, including Foreign Minister Tindemans. At the NAC meeting, every delegate but three spoke (the exceptions were Portugal, Greece and Iceland). Of these, every one, speaking on behalf of his government, was supportive of our position except the French and the Germans. The EC Commission also indicated support and asked to be kept consulted. The Belgians were not only supportive but offered to carry our message to the others and indicated that the new Norwegian southern North Sea oil and gas finds will cause them to delay the signing of the Soviet gas deal (Tab B). (S)

The situation, then, at the end of the mission, is as follows:

- I. Credits to the Soviet Union
 - A. Information Transparency. All have agreed to this, but the Germans want to limit it to the USSR (omitting Eastern Europe), which is unacceptable.
 - B. Limitation of official and officially-guaranteed credits. All are willing to discuss methods and mechanisms to achieve this except the Germans. The French say they are willing in principal but that

~~SECRET~~

~~SECRET~~

Review March 22, 1988

DECLASSIFIED
NLRR M07-0811 #57117
BY *RW* NARA DATE 10/1/10

~~SECRET~~

2

they have a trade and credit protocol with the Soviet Union which makes it impossible in practice.

- C. A pause in new commitments while the above is being discussed. This objective is a non-starter. If it is considered vital, no agreement is possible. (S)
- II. Energy. The Italians have decided to extend their pause to reflect on Soviet gas purchases and the Belgians have decided not to sign for the time being because of new North Sea finds and the British decision to end the monopsony position of British Gas, as I reported in my cable. If the Dutch can be kept out as well as these two countries and the French take the minimum instead of the maximum under their contract, as they have indicated they might, Soviet sales would be reduced by 14 billion cubic meters/year and the second line would be dead. One reason the Italians and Belgians are willing to cooperate on this (at least temporarily) and the general cooperativeness of the smaller countries as demonstrated in the NAC and the EC is great bitterness over what is seen as disloyal and cutthroat competition on pipeline and other export contracts on the part of the larger countries, especially Germany. (S)
- III. Import restrictions. What we have is the best we can get. Getting this much is considered something of a miracle by all. Small as it is (approximately \$150,000,000 trade reduction), this measure establishes an important precedent. (S)

The Mission is recommending the following future steps:

-- We have said we expect replies from the Germans and French this week as to their willingness to carry on the process.

-- In the meantime, we will be talking to the Japanese and the Canadians. Japanese participation particularly is vital to the success of this.

-- Concurrently, we will be preparing studies and position papers, already assigned.

-- If the replies are favorable, we will have bilateral discussions on terms of credit limitation.

-- If an in-principle agreement can be reached, a working level conference will be called in late April or early May to initial a protocol. Part of the protocol would be the establishment of a permanent but informal monitoring mechanism. (S)

~~SECRET~~

The key elements governing the success or failure of this process now are:

● The overall German attitude. Only the President can turn this around in my view, since the State Department in general and Secretary Haig in particular are dedicated to the proposition that our foreign policy is wedded to a particular government in Bonn.

● The actual terms of the French-Soviet protocol. If they are as stated, the whole concept may be impossible. So far the French have refused to disclose the text (which may be a violation of EC rules). We are trying various channels but again the President's intervention may be required. (S)

Despite the far from wholly satisfactory results of the mission, I recommend the process be continued for the time being, because:

-- Continuation of the process raises the levels of fear and uncertainty in the financial markets and thus to some extent serves to further our objectives.

-- Continuation of the process ensures that there will be continuing publicity on the matter and that we are trying to do something about it. It also ensures that if the process fails, blame will fall squarely where it should.

-- Continuation of the process demonstrates our continuing concern about the Siberian pipeline and our continuing involvement in the energy situation. (S)

The following are major dangers in the situation:

● The Germans may be able to hide behind the French protocol and escape their share of the responsibility for any failure in the eventual success of the process.

● The Economic Summit and the NATO Summit may be rendered even more divisive than they are likely to be anyway if the process fails just as they are about to begin. I will be sending you a memo on this shortly. (S)

The Mission members worked very well together under Jim Buckley's excellent leadership. I recommend that it be made into a SIG (just the five members) to supervise the follow-up. I further recommend that if George Shultz goes to Europe, agreement on credit limitation be made the centerpiece of his effort, not just some vague "good will" purpose. Jim has approved both of these ideas. (S)

~~SECRET~~

RECOMMENDATIONS:

That you constitute the Buckley Mission senior members as a SIG to follow up on credit limitation to the USSR.

Approve _____ Disapprove _____

That you recommend that credit limitation to the Soviet Union be made the centerpiece of any George Shultz trip to Europe.

Approve _____ Disapprove _____

~~↑~~
Guaranteed
to
negate
value of
this
trip

- cc: Tom Reed
- Don Gregg
- Gus Weiss
- Henry Nau
- Carnes Lord
- Richard Pipes
- James Rentschler

Attachments

- Tab A My Cable to You
- Tab B Articles re North Sea Oil/Gas

~~SECRET~~

VZCZCBSI *
OO RUEADWW
DE RUEHBS #4003 078 **
ZNY CCCCC ZZH
O 191006Z MAR 82 ZFF-4
FM AMEMBASSY BRUSSELS
TO WHITEHOUSE WASHDC IMMEDIATE
BT
~~C O N F I D E N T I A L~~ BRUSSELS 04003

NODIS

CLASS: CONFIDENTIAL
CHRG: USEC:3/19/82
APPRV: MARTIN
DRFTD: DELEGATION:BAILEY
CLEAR: NONE
DISTR: EC-NODIS
1/JEF D&COVER

NODIS

USEC

FOR WILLIAM P. CLARK ONLY FROM BAILEY

SM

E.O. 12065: RDS-1 3/10/02) (BAILEY, NORMAN A.) OR+M
TAGS: EFIN, EEWT
SUBJECT: BUCKLEY MISSION

1. ~~CONFIDENTIAL~~ - ENTIRE TEXT

2. PENDING A COMPLETE REPORT ON MONDAY I WANTED TO GIVE YOU A BRIEF IDEA OF THE RESULTS OF THE TRIP SO FAR:

- A) THE GERMANS WERE THE LEAST COOPERATIVE. THEY APPEAR TO BE UNWILLING TO COLLABORATE IN THIS AREA EXCEPT FOR THE EXCHANGE OF INFORMATION, AND EVEN THERE ONLY WITH REFERENCE TO THE SOVIET UNION, NOT THE EAST EUROPEAN COUNTRIES. THE ATMOSPHERE WAS COLD, ESPECIALLY ON THE PART OF GENSCHER.

- (B) THE FRENCH RECEPTION WAS WARMER ALTHOUGH THERE ARE SERIOUS PROBLEMS. THERE WAS AGREEMENT ON FULL EXCHANGE OF INFORMATION, BUT THE FRENCH HAVE A SECRET CREDIT AND TRADE PROTOCOL WITH THE SOVIETS (RUNNING THROUGH 1985) WHICH THEY CLAIM BINDS THEM TO PROVIDE OFFICIAL GUARANTEES FOR WHATEVER CAPITAL GOODS THE SOVIETS MIGHT WANT TO BUY.

- (C) THE BRITISH ARE PREPARED TO BE QUITE COOPERATIVE ON BOTH THE INFORMATION EXCHANGE AND CREDIT LIMITATION ISSUES. THE BRITISH GAVE US A VERY IMPORTANT PIECE OF NEWS - NAMELY THAT HMG HAS DECIDED TO PERMIT THE EXPORT OF BRITISH GAS.

- (D) THE ITALIANS EXPRESSED A WILLINGNESS TO CONSIDER POSITIVELY THE WHOLE PACKAGE, ALTHOUGH THEY EXPRESSED (UNDERSTANDABLY) UNHAPPINESS THAT DESPITE ALL THEIR COOPERATIVENESS WE SEEM UNWILLING TO SUPPORT THEM EVEN ON SMALL THINGS SUCH AS THE PANDOLFI CANDIDACY FOR OECD SECRETARY-GENERAL.

3. IN SHORT, THE PROCESS SHOULD PROBABLY BE CARRIED ON TO THE STAGE OF BILATERAL TALKS BASED ON A DRAFT CREDIT-LIMITATION PROTOCOL, BUT CHANCES OF SUCCESS

DECLASSIFIED
NLR 7-081 #5118
BY CIA NARA DATE 1/20/10

ARE SLIM, LARGELY DUE TO THE GERMAN ATTITUDE AND THE EXISTENCE OF THE FRENCH PROTOCOL. IN TERMS OF OUR THREE OBJECTIVES, THEN:

- A) ALL FOUR COUNTRIES AGREED TO TRANSPARENCY PUT THE GERMANS ONLY FOR THE SOVIET UNION.

- B) THE UK AND ITALY AGREED TO A PROCESS LEADING TO A POSSIBLE PROTOCOL ON CREDIT LIMITATION TO THE SOVIET UNION. FRANCE AND GERMANY RESERVED THEIR POSITION.

- 4. ONLY ITALY AGREED TO A PAUSE IN COMMITMENTS MEANWHILE, AND THEY HAVE ONE ANYWAY. VEST

BT
#4003

Norway Confirms Major Find of Oil, Gas in North Sea

From Agency Dispatches

OSLO — The Norwegian state oil directorate confirmed on Friday reports of a major oil and natural gas find in the southern area of its North Sea sector.

Industry sources said further drilling would be needed before the extent of the find in the Hod field is known, but they added the well is "encouraging" because it encountered a thick layer of oil-producing sands deeper than those found in other wells in the area. Partners in the well are Standard Oil of Indiana, Amerada Hess, Texas Eastern and a group of Norwegian oil companies.

Meanwhile, in another reflection of the world oil glut, Gulf Oil and Texaco cut \$1 a barrel from the price they pay for U.S. crude oil, with Gulf's across the board cut effective Thursday and Texaco's cut in its posted price effective Wednesday, company spokesmen said Friday in New York.

Earlier this week, across the board cuts in the price paid for U.S. crude oils were announced by Ashland Oil, \$2 a barrel for sweet crude, and Diamond Shamrock, \$3 a barrel.

Cities Service, Du Pont's Conoco subsidiary, and Getty Oil also announced reductions of \$3 a barrel for selected crude oils. And Huskey Oil cut the price for some oil \$2 a barrel.

BIGGEST OIL FIELD

Norway has found its biggest oilfield, according to a spokesman for the State Oil Directorate. The field has been located near Norway's continental shelf border to Denmark.

Daily Telegraph

3/20/82

3/23/82

The Opportunities for International Economic Cooperation

All Summit countries share the same long-term goal of stable, vigorous, non-inflationary growth, reduced unemployment and greater stability of exchange rates. The task is to translate this agreement on objectives into effective policies. In addition to the direct benefits, success on this front is essential for effective cooperation on other policies to expand trade and development.

The domestic economic policies of each nation reflect the influence of its particular historical, cultural, and institutional situation. In addition, countries vary widely, in size and natural endowment, have diverse analytical concepts and theories, and operate with differing social structures. Thus, national sovereignty with respect to economic policy is, and will continue to be, a basic feature of the international economic system. But we must all recognize the consequences of our policy differences. The trade and financial linkages of an interdependent world severely limit the ability of any nation to insulate itself from the impact of the economic policies and performance of others and require that we recognize the limits on how far we can differ in domestic policy.

Many current economic problems are the result of basic divergences in our economic policies. We now have two choices: to correct the underlying divergencies, or to try to mask their symptoms by suppressing market signals. The United States prefers the former. We believe that where exchange markets are unstable due to differing economic policies and performance, exchange market intervention or capital controls cannot succeed in eliminating the basic divergences. Similarly, efforts to coordinate interest rates, in disregard of underlying market forces, would be futile.

It is clear, however, that not all policies and objectives are equally susceptible to international cooperation. There are limits to the scope for detailed coordination of policies. Recognition of these bounds is necessary to assure the full potential of cooperative efforts and to avoid actions which impede achievement of common long-term goals. We must distinguish between those areas where explicit coordination of specific actions is imperative, and those in which it is necessary to achieve compatibility of overall policy approaches.

The general policy issues which have international implications can be grouped into three categories:

- (1) Areas where the market mechanism would not be expected to yield the optimal result or where domestic policies have significant international

externalities. In these areas sustained efforts by some countries clearly benefit others whose contribution is less than commensurate with their economic resources. While a nation which does not contribute to the joint effort would nevertheless benefit from the effort of others, the total benefit to the group is reduced. A deficient performance by some nations negates the efforts of the others or, at least, reduces their effectiveness.

These issues often extend into areas beyond that of direct economic policy, but have significant effects on economic performance. Included are policies contributing to mutual defense, and the expansion of trade and development through foreign aid. The common objective allows a clear determination of the roles of individual nations and allows for specific guidelines for the contribution of each country. Detailed cooperation is imperative in achieving mutual goals in these areas.

- (2) Policies which interfere with the operation of competitive markets. These involve neo-mercantilist actions which attempt to transfer productive facilities from other countries or efforts to protect domestic activity from external competitive pressures. Included, among others, are certain export promotion schemes, tax and credit preferences for exporters; tax holidays for foreign investors; direct controls on prices, credit allocation and capital flows; and systematic intervention which distorts exchange markets.

The use of these policies, if unchecked, would result in enormous damage to the entire community of nations. Consequently, the case for explicit international coordination, in fact, harmonization, of efforts to eliminate anti-competitive policies is overwhelming.

- (3) The broad range of domestic macroeconomic policies, which affect other nations through the economic interdependence of nations. This area presents the most difficult problem for international coordination but it is also a major source of current economic difficulties.

These policy differences among nations affect flows of goods, services, and capital and often are the primary source of instability in exchange markets. However, no precise short-run coordination, in the sense of synchronized timing or intensity of these policies is likely to be effective. Instead, establishing a universal commitment to discuss and relate basic domestic policies to long-term objectives is

necessary. While the timing and intensity with which these policies are implemented would vary across nations, the critical goal is the commitment of all Summit nations to view the consequences of their immediate actions over a longer-term perspective and to minimize fundamental divergencies among nations.

The secular policies of individual countries define the environment in which the international economic system operates. Establishing the prospect for sustained non-inflationary growth is a necessary condition for efficient and stable exchange markets.

The Benefits of Convergent Long Term Policies

There must inherently be a great rift between nations which are willing to tolerate domestic inflation as they pursue their internal social goals, and other nations which are committed to maintaining or achieving general price stability. Nations with inflationary policies have to recognize the exchange rate and balance of payments consequences of their policies. If they do not, they are led inevitably to institute capital controls, trade restrictions and exchange market intervention. Also, this fundamental policy imbalance leads to pressure on other nations to adopt accommodative domestic policies, misdirecting the spirit of international cooperation to short-run fine tuning of aggregate demand.

Efforts at international cooperation should focus on establishing the common resolve to reduce domestic inflation and to promote real economic growth through increased opportunities for productive investment. The challenge to this resolve continues to arise from the perceived conflict between each country's immediate domestic objectives and our mutual long-term interests. Short-term conditions are important and deserve attention, but that concern should be balanced by a view of the longer-term consequences of immediate policies. In fact, many current problems are only the immediate manifestation of long-term conditions which stimulate inflation, and discourage real economic growth. Thus, the ability of each of us to deal with short-term problems effectively is enhanced greatly by prior commitment of all of us to secular price stability and sustainable economic growth.

Secular policies to assure general price stability and to encourage real economic growth are the only method for achieving permanent expansion of job opportunities, low interest rates, and competitiveness in international markets. A policy of reallocating resources away from current consumption by both the government and the private sectors, and towards long-lived productive assets is, by definition, a policy for lowering real rates of interest and stimulating growth. The areas for increased attention and discussion are:

- (1) Monetary discipline. While there are differing views on the sources of inflation, one of the few economic certainties is that

inflation can persist only where it is accommodated by excessive monetary expansion. Nations which experience inflation will have to reduce the trend rate of monetary expansion. Each nation must decide the speed of this adjustment, recognizing that international differences in the paths to lower inflation will be reflected in exchange and capital markets.

(2) Budget discipline. Increasing the sustainable pace of real economic growth requires that the burden of financing government spending must be shifted away from production, work and capital formation, toward consumption and leisure activity. This includes concerted effort to reduce the burgeoning credit demands of government which result from persistent budget deficits. Also, the incidence of taxation should be shifted away from production activity and the accumulation of capital.

(3) Internal flexibility. Differences within the private sector in the ability to adjust to economic shocks can create severe internal disruptions, which place strain on the discipline of the central government. Willingness of government to protect existing industries, firms, and jobs when they fall victim to competitive forces is the source of considerable internal rigidity. Protection in one country inevitably leads to pressure for retaliation by trading partners.

Problems of the Transition to Less Inflation and Faster Growth

Reversing the trend of stagflation is not a quick or painless process. The immediate burden is real, and is substantially increased when the effort to implement longer term policies is half-hearted. However, the alternative is a steady erosion of standards of living for most nations, increased international tensions, and a decrease in ability to resist external economic, political and military threats.

The greatest impediment to the establishment of long-term policies to reduce inflation and stimulate growth is the lingering presumption of a lasting trade-off between inflation and unemployment. However, the experience of many nations over the past decade shows the sacrifice of sound long-term policies for the purpose of supporting domestic employment has led only to both more inflation and unemployment. Inflation and real economic growth are ultimately incompatible.

High and varying inflation imposes costs on a society by reducing standards of living in the future. Thus, the immediate temporary costs that result from imposing monetary discipline should be weighed against the permanent losses of output and employment which are certain to result from a failure to act. In an open international system the prospect of these future losses will be reflected in a steady depreciation of the domestic currency and a loss of competitiveness to nations which demonstrate a stronger commitment to price stability.

Establishing the credibility of an anti-inflationary policy is crucial to reducing the transition costs. This requires a demonstrated

commitment to monetary discipline, avoiding the temptation to sacrifice monetary control, even temporarily, to the immediate pressures of concern about interest rates and exchange rates. A variety of factors affect interest and exchange rates in the short run, not the least of which is concern about the commitment of monetary authorities to long-term control of money growth. Frequent, systematic intervention in both domestic and international markets aggravates those fears. Countries which have established some degree of monetary discipline have been able to maintain real growth -- and their commitment to maintain control has given them an advantage in absorbing economic shocks.

During the transition it is unlikely that the long-term policies of various nations would be perfectly in phase. The credibility of policy would vary from country to country, as would the relative intensity of the policy actions. This situation would be expected to yield temporary imbalances in both domestic and international markets, as expectations adjusted at varying rates. These transitory disruptions can be reduced, but not avoided entirely.

The magnitude and duration of transitional problems is influenced greatly by public perception, both at home and abroad, of government's commitment to long-term policies. Expedient action, in the form of stimulus to demand and intervention in markets, is a clear signal of a lack of that commitment. Ironically, short-term efforts to suppress the transitional effects of adjustment to noninflationary pro-growth trends can be expected to worsen the immediate economic situation. The same holds for efforts by a government to avoid the immediate domestic consequences of the adoption by other nations of long-term policies which are more credible than its own.

In summary, international economic problems have been aggravated by a failure to achieve the common goal of non-inflationary economic growth. Divergent long-term policies are reflected in volatility of current exchange markets and needless fluctuations in economic activity. This situation requires more emphasis on long-term policy and less on synchronization of short-term aggregate demand programs within each nation. The potential benefits are enormous and are measured in terms of more jobs, lower and less variable interest rates, stable prices and elimination of the major force behind volatility of exchange rates.



DEPARTMENT OF STATE

Washington, D.C. 20520

~~SECRET~~

File
March 27
Summary
(issued)
EW

March 24, 1982

MEMORANDUM FOR JUDGE WILLIAM P. CLARK
THE WHITE HOUSE

SUBJECT: Report of the Interagency Mission to Europe

Attached is the formal report of the Mission to Europe that took place March 13-20, 1982.

The report has been approved by Under Secretary Buckley and the other major participants of the mission: Under Secretaries Lionel H. Olmer and Fred C. Ikle, Assistant Secretary Marc E. Leland and Dr. Norman A. Bailey.

L. Paul Bremer III
Executive Secretary

DECLASSIFIED
Department of State Guidelines, July 21, 1997
By Amf NARA, Date 2/22/08

~~SECRET~~

Report on Interagency Mission To Europe

As requested in Judge Clark's memorandum of March 1, an interagency team, headed by Under Secretary of State Buckley and consisting of senior officials from the Departments of Defense, Commerce, Treasury and the National Security Council, visited Bonn, Paris, London, Rome and Brussels March 13-20 for talks on developing a framework to restrict significantly the flow of officially-supported credits to the Soviet Union.

The mission proposed that the Allies join together in an effort to eliminate or restrict officially-supported credits -- either guaranteed or subsidized -- to the Soviet Union and to establish a mechanism which could monitor the flow of official credits and credit guarantees to the Soviet Union. The mission also proposed that pending agreement on a long-term system to limit official-supported credits, the Allies halt temporarily further credit extensions and guarantees to the Soviet Union and that they exchange the financial data required to design and monitor the restraints agreed upon.

The mission failed to secure agreement to a temporary halt in new credits and guarantees while a longer-term framework for restricting credits was being worked out, but did secure agreement in principle to a system providing for greater exchange of information on credits and guarantees to Eastern Europe and the USSR. In accordance with the memorandum of March 1, the critical issue -- development of a new system of official credit restraints -- was conveyed as a matter for genuine consultation and discussion, and was treated as such by our European Allies. While it did not thus evoke final or conclusive responses on this issue, the mission did engender a process which is sufficiently promising to warrant further efforts. The Europeans will discuss the political imperatives of our initiative at the March 29-30 meeting of European Heads of Government; we will follow up with bilateral discussions to develop specific areas of agreement. Continued, vigorous US action to promote an early European consensus on the need for credit restraints is essential; ~~it should be followed by negotiation of a framework for cooperative action, possibly for approval at Versailles.~~

The mission's consultations made clear that we are asking our Allies to adopt a very substantial change in traditional export credit practices in which all nations are treated alike, and to agree that the Soviet Union cannot be considered as "just another country." The Germans went to great lengths to describe why they could not restrict credit guarantees to the Soviets, citing the long tradition of government guarantees backing up capital goods exports. The French claim that an

DECLASSIFIED

NLRR M07-081 #511A

SECRET

BY AV NARA DATE 4/20/10

existing protocol with the Soviets would in fact prohibit restraints on official credits and guarantees. Both, in short, emphasized why they felt our specific goals were unworkable, while expressing some interest in cooperating on the narrow issue of reducing interest subsidies to the Soviet Union. The British and the Italians, however, are prepared to work with us in developing a consensus acceptable to all. We found the Belgians supportive of our efforts and representatives of other smaller Allies at NATO were also generally positive. They seem particularly anxious to put an end to what they see as financially ruinous competition among exporters in offering to finance Soviet trade at below market rates. A common concern of all, however, is that any agreement on credit restraints adequately protect their relative market shares. They emphasized the need to include Japan and all other significant countries. The European Commission offered its active support in building a consensus. President Thorn asked, however, that we understand the problems involved in creating a consensus within the Community and beyond. NATO as an organization, and SYG Luns personally, can also be counted on to be helpful.

Why
no
mention
of
British

At all stops along the itinerary, the mission explained to the Allies that the President was holding in abeyance -- pending a report by this mission -- any further decisions regarding the applicability of his December sanctions as they pertain to exports of oil and gas equipment to the Soviet Union. There can be no Allied doubt regarding his determination to move strongly against the Soviet Union, not only because of its action in Poland but as a result of the Soviets' sustained military build-up in the face of past Western restraint. We stressed also the importance the President placed on early action to achieve effective restraint on future official credits and credit guarantees.

We found general agreement in Europe that policies followed by the Western Allies during the last decade in extending huge amounts of credits to Eastern European countries and the Soviet Union were fundamentally misguided. We also found indications that the sort of "reverse leverage" which we had feared does affect our European Allies. Those countries with the greatest exposures in Eastern Europe and the Soviet Union, notably the Federal Republic of Germany and France, are indeed inclined to regard future credits as a means to ensure ~~repayment of past loans~~. Our greatest leverage on them may be the position that our cooperation in handling debt problems in Poland and elsewhere in Eastern Europe is clearly linked to their cooperation in restricting official credits to the Soviets.

The mission was encouraged during its meeting with Belgian Foreign Minister Tindemans on March 20 to learn that he

43

~~SECRET~~

-3-

planned to raise our initiative with his EC Ten colleagues on March 22-23, and to recommend, as Chairman of the Foreign Ministerial Council, that the Allies cooperate with us in this effort. Consultations should also begin rapidly within NATO on the strategic aspects of the credits problem. We have raised this problem with Japanese Foreign Minister Sakurauchi during his visit to Washington this week and have been assured of their support of any restraints subscribed to by the Alliance. Canadian support is also important, and mission members plan to visit Ottawa shortly.

In sum, our initiative is launched. The obstacles ahead are both substantial and substantive. However, there is a growing perception in Europe of the strategic danger and financial risk of the continued flow of credits and credit guarantees to the Soviet Union, and the financial collapse of Eastern Europe, which cannot but affect the Soviet Union, is also working to our advantage. Ideally, we want to reach an agreement with our Allies which could be approved at the Versailles Summit (June 4-6). Whether this timing is feasible remains to be seen.

The mission also used its talks in Europe to encourage our Allies to take another look at commitments to purchase Siberian gas in light of recent changes in gas supply/demand projections as well as our concerns over possible dependence on Soviet gas supplies and hard currency flows to the USSR. While current indications are that the Germans and French are determined to go ahead with the project and that the Italians will soon join them, we believe that the actual volume of additional purchases from the USSR will be less than we had anticipated and that some countries may not participate at all.

~~SECRET~~

~~SECRET~~

NATIONAL SECURITY COUNCIL MESSAGE CENTER

PAGE 02 OF 04 SECSTATE WASHDC 0789 DTG: 261352Z MAR 82 PSN: 013156

EXDIS

29-30. IN OUR VIEW, THIS MEETING WILL BE AN EXTREMELY IMPORTANT STAGE IN THE PROCESS OF DEVELOPING THE COMMON WESTERN POSITION. I HOPE THAT YOUR GOVERNMENT WILL WORK TO ENSURE THAT THE DISCUSSIONS NEXT MONDAY AND TUESDAY RESULT IN A WILLINGNESS ON THE PART OF OUR ALLIES TO JOIN WITH US IN THE EFFORT WHICH WE HAVE PROPOSED. WE RECOGNIZE, AS UNDER SECRETARY BUCKLEY MADE CLEAR, THAT SUBSTANTIAL PROBLEMS WILL HAVE TO BE RESOLVED; HOWEVER, WE ARE CONFIDENT THAT, IF THE POLITICAL WILL IS PRESENT, WE SHOULD BE ABLE TO DEVELOP A SYSTEM WHICH SERVES OUR COMMON INTEREST, IS FAIR TO ALL, AND REMOVES THE DANGEROUS CURRENT SUBSIDIZATION OF THE SOVIET ECONOMY.

EXDIS

UNDER SECRETARY BUCKLEY HAS INFORMED ME THAT DURING HIS MISSION'S TALKS IN EUROPE, THERE WAS REPEATED REFERENCE TO THE NECESSITY THAT JAPAN PARTICIPATE IN ANY CREDIT ARRANGEMENT. YOU WILL BE INTERESTED TO KNOW THAT WE RAISED THIS SUBJECT IN WASHINGTON IN OUR TALKS HERE, MARCH 23, WITH JAPANESE FOREIGN MINISTER SAKURAUCHI, WHO ASSURED US THAT JAPAN SHARED OUR PREOCCUPATIONS AND WOULD COOPERATE IN A COMMON EFFORT. I WILL BE USING MY MEETINGS HERE TODAY AND TOMORROW WITH OUR COLLEAGUE, EMILIO COLOMBO, TO DISCUSS THIS SUBJECT, AND YOU MAY BE ABLE TO OBTAIN A FIRST-HAND READING FROM HIM OF THE VERY GREAT IMPORTANCE AND SENSE OF URGENCY WHICH WE ATTACH TO PROGRESS ON THIS MATTER.

SINCERELY,

/S/ ALEXANDER M. HAIG, JR.

EXDIS

3. FOR ATHENS, COPENHAGEN, LUXEMBOURG, THE HAGUE.

POSTS ARE REQUESTED TO DELIVER FOLLOWING MESSAGE FROM SECRETARY HAIG TO FOREIGN MINISTERS HARALAMBOPOULOS, OLESEN, FLESCHE AND VAN DER STOEL FRIDAY, MARCH 26. IT IS ESSENTIAL THAT MESSAGE BE PASSED QUICKLY TO FOREIGN MINISTER WHILE HOST - - GOVERNMENT PREPARATIONS FOR MARCH 29-30 EUROPEAN COUNCIL MEETING ARE STILL UNDERWAY. THERE WILL BE NO SIGNED ORIGINALS. - - -

EXDIS

DEAR -----:

YOUR PERMANENT REPRESENTATIVE TO THE NORTH ATLANTIC COUNCIL HAS DOUBTLESS INFORMED YOU OF THE BRIEFING - CONDUCTED LAST FRIDAY, MARCH 19 BY UNDER-SECRETARY OF STATE JAMES BUCKLEY ON AN IMPORTANT INITIATIVE WHICH THE UNITED STATES IS PROPOSING THE WESTERN ALLIES AND OTHER KEY TRADING COUNTRIES TAKE ON THE -MATTER OF OFFICIAL CREDITS AND CREDIT GUARANTEES TO THE USSR. AS UNDER SECRETARY BUCKLEY EXPLAINED TO-THE COUNCIL, WE BELIEVE RESTRAINTS ON FUTURE OFFICIAL CREDITS AND - CREDIT GUARANTEES TO THE SOVIET UNION ARE ESSENTIAL ON STRATEGIC, POLITICAL, AND FINANCIAL GROUNDS. -WE WANT TO WORK TOGETHER WITH OUR EUROPEAN FRIENDS AND OTHER KEY ALLIES IN PURSUING THIS OBJECTIVE, WHICH IS A - MATTER OF HIGHEST PRIORITY FOR OUR GOVERNMENT.

I UNDERSTAND THAT THE QUESTION OF HOW THE EUROPEAN ALLIES WILL RESPOND TO OUR PROPOSALS WILL BE DISCUSSED AT THE MARCH 29-30 MEETING OF THE EUROPEAN COUNCIL. -WE STRONGLY HOPE THAT OUR EUROPEAN FRIENDS -WILL AGREE TO - DISCUSS THIS SUBJECT WITH US ON A PRIORITY-BASIS-IN AN EFFORT TO REACH AN AGREEMENT, AND WE LOOK FORWARD TO A DECISION FROM THE MARCH 29-30 MEETING TO THAT EFFECT.

~~SECRET~~

~~SECRET~~

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 03 OF 04 SECSTATE WASHDC 0789 DTG: 261352Z MAR 82 PSN: 013156

EXDIS

4. FOR DUBLIN

EMBASSY IS REQUESTED TO DELIVER FOLLOWING MESSAGE FROM SECRETARY HAIG TO FOREIGN MINISTER COLLINS PRIOR -TO MARCH 29-30 EUROPEAN COUNCIL MEETING. --THERE WILL BE NO SIGNED ORIGINAL.

DEAR -----:

ONE OF THE QUESTIONS WHICH HAS BEEN A SUBJECT OF INCREASING CONCERN TO MY GOVERNMENT FOR SOME TIME IS THE PATTERN OF SUBSIDIZATION OF SOVIET ECONOMIC DEVELOPMENT RESULTING FROM OFFICIALLY-SUPPORTED EXPORT CREDITS AND CREDIT GUARANTEES EXTENDED TO THE SOVIET UNION. WE HAVE CONCLUDED THAT THE SERIOUSNESS OF THE SITUATION REQUIRES COMMON ACTION BY THE WESTERN ALLIES AND OTHER MAJOR TRADING COUNTRIES TO PUT OUR RELATIONSHIP WITH THE SOVIET UNION ON A SOUND AND RATIONAL BASIS.

EXDIS

A US MISSION HEADED BY UNDER SECRETARY OF STATE JAMES BUCKLEY RECENTLY VISITED SEVERAL EUROPEAN CAPITALS FOR DISCUSSION OF THIS SUBJECT AND MET WITH OFFICIALS OF THE EUROPEAN COMMISSION AND THE BELGIAN EC PRESIDENCY WHILE IN BRUSSELS. WE UNDERSTAND THAT QUESTION OF HOW THE MEMBERS OF THE EUROPEAN COMMUNITIES SHOULD RESPOND TO THE US INITIATIVE WILL BE CONSIDERED WHEN THE EUROPEAN COUNCIL MEETS MARCH 29-30. MY PURPOSE IN WRITING TO YOU IS TO ALERT YOU TO OUR UNDERSTANDING THAT THE SUBJECT WILL BE CONSIDERED AT THE EUROPEAN COUNCIL MEETING AND TO STRESS THE GREAT IMPORTANCE WHICH MY GOVERNMENT, AND PRESIDENT REAGAN PERSONALLY, ATTACH TO THIS PROPOSAL. WE STRONGLY HOPE THAT WE WILL BE ABLE, IN THE VERY NEAR FUTURE, TO WORK OUT A FAIR AND RESPONSIBLE ARRANGEMENT WITH OUR ALLIES RESTRAINING FUTURE OFFICIAL CREDITS AND CREDIT GUARANTEES TO THE SOVIET UNION. YOUR GOVERNMENT'S SUPPORT OF SUCH AN EFFORT WILL BE VERY MUCH APPRECIATED.

EXDIS

5. FOR USEC

MISSION IS REQUESTED TO DELIVER FOLLOWING MESSAGE FROM SECRETARY HAIG TO PRESIDENT THORN PRIOR TO MARCH 29-30 EUROPEAN COUNCIL MEETING. THERE WILL BE NO SIGNED ORIGINAL.

EXDIS

DEAR -----:

UNDER SECRETARY BUCKLEY HAS REPORTED TO ME ON THE VERY POSITIVE MEETING WHICH HE AND HIS COLLEAGUES HAD IN BRUSSELS LAST FRIDAY WITH YOU AND VICE PRESIDENTS HAFERKAMP AND DAVIGNON. WE ARE MOST ENCOURAGED TO LEARN THAT THE COMMISSION SHARES MANY OF OUR CONCERNS OVER THE CURRENT SITUATION AND WILL BE PREPARED TO WORK WITH US, AND OTHER KEY COUNTRIES, IN AN EFFORT TO REACH A CONSENSUS ON THE MOST IMPORTANT QUESTION OF OFFICIAL EXPORT CREDITS AND CREDIT GUARANTEES TO THE SOVIET UNION.

WE UNDERSTAND THAT THE QUESTION OF HOW THE MEMBERS OF THE EUROPEAN COMMUNITY MIGHT RESPOND TO OUR PROPOSAL

WILL BE DISCUSSED WHEN THE HEADS OF GOVERNMENT MEET

MARCH 29-30. NATURALLY, IT IS OUR VERY STRONG HOPE THAT THE MEMBERS OF THE COMMUNITY, IN PARTICULAR THOSE

~~SECRET~~

~~SECRET~~

47

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 04 OF 04 SECSTATE WASHDC 0789 DTG: 261352Z MAR 82 PSN: 013156

WHICH PLAY A PARTICULARLY IMPORTANT ROLE IN THIS
MATTER, WILL BE PREPARED TO JOIN WITH US AND THE
EUROPEAN COMMISSION IN THIS EFFORT. A DECISION-TO THIS
EFFECT AT THE MEETING MARCH 29-30 WOULD BE A VERY GREAT
STEP FORWARD.

SINCERELY,

/S/ ALEXANDER M. HAIG, JR. HAIG
BT

EXDIS

EXDIS

EXDIS

EXDIS

~~SECRET~~

*File
France
Summit
(Issues)*

WHSR
ROUTE SLIP

Time Stamp

STAFF	C/O
Clark	
McFarlane	
Poindexter	
<i>Bucham</i>	<i>C</i>
Merchant	
XXXXXXXXXX	

82 MAR 30 P 5: 58

WHSR
SITUATION ROOM

unfiled
Baker
Nau
Pentecost

C : Copy

O : Original

49

DEPARTMENT OF STATE

WASHFAX RECEIPT
DEPARTMENT OF STATE

RECEIVED

MAR 30 P 5: 57

B

WHITE HOUSE
SITUATION ROOM

S/S #

UNCLASSIFIED UPON REMOVAL
OF CLASSIFICATION

ant 2/22/06

MESSAGE NO. Cable 00343 CLASSIFICATION Confidential No. Pages 3

FROM: C. Billo EUR/RPE/OECD 20326 64308
(Officer name) (Office symbol) (Extension) (Room number)

MESSAGE DESCRIPTION OECD Secretary General van Lennep's Visit re
Macroeconomic Issues

TO: (Agency)	DELIVER TO:	Extension	Room No.
CEA • W.H.	James Burnham	395-5084	315
Treasury	R. Korp	566-5365	5050

FOR: CLEARANCE INFORMATION PER REQUEST COMMENT

REMARKS:

S/S Officer: AM

~~CONFIDENTIAL~~

EUR/RPE/OECD:CBillo:sm
3/30/82 EXT.20326 [3555A]
EUR/RPE:SVogelgesang

CEA:JBurnham

Treas:RKorp

PRIORITY ALOECD, Geneva

Paris also for USOECD

GDS 03/30/88, [Vogelgesang, Sandy]

ECON, EFIN, OECD

Visit of OECD Secretary General van
Lennep: Macroeconomic issues

REF: Paris 10028

sv
ob

1. [~~Confidential~~ - entire text]

2. CEA Chairman Weidenbaum, March 24, began by discussing the world economic situation. He said the U.S. must, for domestic reasons, take actions which would also benefit the world economy. It must attack budget deficits and high interest rates. The problem is how to bring interest rates down.

DECLASSIFIED
BY CN NA. DATE 4/20/10
NLRR 1007-081 #51121

3. Van Lennep replied that the U.S. is not solely responsible for high interest rates worldwide and then outlined his concept of a differentiated approach to macroeconomic policy prescription in the OECD area [reftel]. He argued that OECD countries had a stake in each others' macroeconomic policies but it was a mistake to give the same policy advice to all countries as had been done in the past.

4. Van Lennep said it would be important at the OECD Ministerial to avoid a narrow focus on U.S. interest rates or the expression of the sort of economic pessimism which he thought endemic in European circles these days. Weidenbaum heartily agreed, saying the U.S. debated not "if" recovery would occur but "when". He was aware, however, of the different perceptions in Europe. Van Lennep thought a "differentiated" approach would help avoid excessive concentration on the U.S. situation.

5. Treasury Secretary Regan, March 25, told van Lennep he is aware of European criticisms of U.S. policies. Regrettably, there is a persistent belief in U.S. financial markets of a direct link between large budget deficits and high interest rates. The Administration has, in fact, addressed the fundamentals. U.S. inflation rate is now lower than in any of our major trading partners. Under Secretary Sprinkel observed that recent experience reinforces the historical view that faster money supply growth does not lead to lower interest

money growth not volatile policy swings. Empirical evidence shows that a large part of the current high level of U.S. rates can be attributed to unnecessarily "volatile" monetary policy over the past two years.

6. As to van Lennep's proposed differentiated strategy, Sprinkel explained that it would run counter to the Administration's view that all OECD countries should accord priority to fighting inflation. He saw danger in "fine tuning" policy prescription in each country or in clusters of OECD countries. Premature reflation could bring on another round of stagflation. Instead of a differentiated approach, priority should be directed to treating elements common to all OECD countries: large deficits and high inflation.

7. Van Lennep replied that France, Netherlands, and the Scandinavian countries should be encouraged to follow a differential approach: How else can they be held accountable for their actions in international fora? Van Lennep added his concern that a Ministerial row over macroeconomic policy might cast a shadow over important objectives in the field of trade policy.