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File Folder FRANCE-ISSUES (12)

FOIA

S2007-081

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183

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
51152	MEMO	EDWARD LOLLIS TO YAEGER RE VERSAILLES SUMMIT AND AGRICULTURAL TASK FORCES R 4/20/2010 M2007-081	2	5/14/1982	B1
51153	CABLE	151827Z MAY 82 R 4/20/2010 M2007-081	7	5/15/1982	B1
51154	PAPER	RE OECD, NATO, EC COMMISSION R 4/20/2010 M2007-081	2	3/31/1982	B1
51155	MEMO	BAILEY TO CLARK RE SHULTZ REPORT TO PRESIDENT R 4/23/2010 NLRRM2007-081	2	5/17/1982	B1
51156	CABLE	191851Z MAY 82 R 4/20/2010 M2007-081	2	5/19/1982	B1
51157	CABLE	221923Z MAY 82 R 4/20/2010 M2007-081	5	5/22/1982	B1
51158	CABLE	221928Z MAY 82 R 4/20/2010 M2007-081	4	5/22/1982	B1
51159	LETTER	PM OF AUSTRALIA TO RR R 5/24/2010 NLRRM2007-081	3	ND	B1

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

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Improved International Economic,
Trade and Monetary Cooperation

File
Finance Summit
(issued)

Objective

To proceed cautiously on multiple parallel tracks to build confidence among major currency countries in the consultation process on basic economic policies and in that context to encourage convergence of these policies. If achieved, this objective obviates the need for exchange market intervention to smooth exchange rate fluctuations or to reconstruct a "system in the Bretton Woods spirit . . . based on stable but adjustable exchange rates."

Multiple Tracks for Consultations

It has been argued, alternatively, that

- Exchange rate fluctuations cause trade and domestic policy distortions (e.g., protectionist measures or capital controls);
- Domestic policies cause distortions in trade and exchange rate patterns (e.g., U.S. policies affecting appreciation of dollar or Japanese policies affecting depreciation of yen);
- Protectionist measures in trade or capital markets distort exchange rates and domestic economic policies;
- Short-term policy measures to affect exchange rate, trade or domestic policy conditions deal with consequences, not causes, and coordination of long-term economic policies is necessary to achieve stability of international trade and financial markets.

~~Three~~^{ese} arguments suggest that three sets of factors are at play and interact reciprocally in affecting⁺ prospects for stability and economic efficiency in the international economy.

Exchange rate policies

Trade policies

Domestic economic policies

Within each set of factors, there are both short-term and long-term perspectives being applied.

Proposals

Thus, to build confidence in considerations which permit more direct and intensive exchange of both political and technical argumentation about economic policy among key currency countries, three parallel tracks should be established. These tracks should reflect a common responsibility and accountability among the key currency countries for policies in ~~all~~ three areas -- trade, exchange rate and basic economic policies:

(1) Trade policy discussions are already underway and well grounded in GATT, but it should be recognized that key currency countries have special responsibility and accountability to preserve and enhance the free trading system, ^{no less than} to consult more actively on exchange rate and domestic economic policies.

(2) Key currency countries might reflect their common responsibility and accountability for exchange rate stability by undertaking a joint study to analyze the impact of past

intervention policies on exchange rates and exchange market behavior.

(3) Key currency countries might reflect ~~other~~^{their} common responsibility and accountability for basic economic policies by developing a framework of analysis for evaluating and promoting convergence of long-term economic policies.

Performance

To build confidence, these consultations must focus on performance rather than policy preferences recognizing that the structures, sensitivities and traditions of each country's economy differ. Performance is difficult to measure in cross-national situations. Nevertheless, identifying and focussing analysis around a number of commonly used indicators of performance, even though these indicators may have different meanings in different economies, would help to structure the consultations around realities, rather than vague prospects or policy intentions. Such indicators might include:

(1) Monetary Discipline

- inflation rate
- rate of growth of money supply
- depth and creativity of financial markets
- openness of financial markets

(2) Budget Discipline

- budget deficit
- savings rate

(3) Market forces (meaning market standards applied to

public or private enterprises, rather than the identical preference among all key currency countries for reliance on private enterprise)

subsidy rates
administrative guidance
non-tariff barriers to trade and capital flows



DEPARTMENT OF STATE

Washington, D.C. 20520

NSC - Dr. Nau 5

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MEMORANDUM

May 14, 1982

*File
France Summit
(issued)*

TO: AID/S&T - Mr. Yaeger

FROM: EB/SEN - Edward W. Lollis *EWL*

SUBJ: Versailles Summit and Agricultural Task Forces

While Assistant Secretary Hormats, Ambassador Meissner, and Dr. Nau (NSC) are in Europe, I have the task to complete the summit overview paper on "North/South" issues and to coordinate the associated package of key issues papers.

I have just seen your draft key issues paper on "International Agricultural Task Forces." Since Costas Michaloupoulos has always represented AID in the interagency meetings on this part of the preparations for Versailles, I first shared my reactions to the draft with him, and he urged me to put them in writing to you.

I have been told that Hormats, McPherson, Nau, and others have approved the multilateralization of the US task forces and decided that it will be presented at Versailles as a positive US initiative. As such, it is a key part of the US strategy for the summit and is the only real initiative we have in the "North/South" area. (The global growth conference has been scratched, and the "North/South" round of trade negotiations falls organizationally under the trade area.)

If this is agreed, the only issues relate to the presentation of the initiative at the summit, i.e. its documentation in the key issues paper.

1. The issue in the key issues paper is not the broad issue of food production in LDCs (that's a given for Versailles) but the operational issue of what we want the Summit to do about our initiative. I would suggest something like: "We need summit participants to recognize the value of agricultural task forces and to agree that their multilateralization should be discussed in the DAC." We are putting an objective similar to this in the overview paper, and the two papers must at least be consistent.

2. I do not believe that we should invite non-US experts to participate on US task forces or urge other countries to form their own task forces. This implies that we believe that the so-called international task forces should be unilaterally controlled. This would prejudice discussion in the DAC and unnecessarily complicate our the attainment of our objective for Versailles (Point 1 above).

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3. In the essential facts section of the paper, I would suggest a explanation of why we want to multilateralize the task force idea, e.g. bring more official and private resources to bear, tap total world expertise, share the credit with our allies, create a lasting monument to the spirit of Cancun and President Reagan's initiative, give the Summit at least one new pronouncement to make.

4. Of course it is necessary to retain some background information on the US experience to date, only this can be condensed. It should also say what the US task forces have actually done. The draft says only "make a contribution," "provide momentum," etc.

5. It is essential that the limited space allotted to talking points provide the ammunition for the President (or others) to successfully present the positive US initiative and negotiate a favorable summit decision, i.e. attain our objective (point 1 above). Adhering to the Criticism/response format uses up valuable space and is unnecessary because no one is expected to criticize our proposal at Versailles. (What experts may say during detailed discussion in the DAC is another matter.) The tasker does not require a Criticism/response format, and if it did it should be ignored.

6. Please continue to consult EB/ORF, but add the NSC (Dr. Nau) and EB/SEN (Ambassador Meissner) to the list of necessary clearances.

cc: AID/PPC - Mr. Michaloupoulos
EB/ORF/OFP/FPD - Mr. Furness
NSC = Dr. Nau

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EXDIS

LUXEMBOURG FOR SECRETARY AND HOLMES
USEC

E. O. 12065: RDS-1, 3 5/15/02 (BUCKLEY, JAMES L.)

TAGS: EEWT, EFIN, UR, PEPR

SUBJECT: RESTRICTIONS ON CREDITS FOR SOVIET UNION:

- MEETING OF SUMMIT PARTICIPANTS MAY 14TH

1. (C - ENTIRE TEXT.)

2. SUMMARY: DESPITE INDICATIONS OF WILLINGNESS BY MOST SUMMIT COUNTRIES TO CONSIDER MEASURES TO RESTRICT AVAILABILITY OF CREDITS TO THE SOVIET UNION, PROGRESS AT MAY 14TH MEETING WAS BLOCKED BY FRENCH INABILITY TO IMPLEMENT INCREASES IN DOWNPAYMENTS AND UNWILLINGNESS TO DISCUSS QUANTITATIVE RESTRICTIONS ON SOVIET CREDITS, WHICH AT PRESENT APPEAR TO BE ONLY VIABLE ALTERNATIVE. FRENCH ARE PREPARED AT THIS POINT TO ACT WITHIN OECD EXPORT CREDIT CONSENSUS AND NOTHING MORE. THEY CLAIM RESULTING INTEREST RATE INCREASES WILL SIGNIFICANTLY REDUCE SOVIET SALES. IN LAST MINUTE ATTEMPT TO FACILITATE SUMMIT HANDLING OF THE CREDITS ISSUE AND PREVENT BREAKDOWN, PARTICIPANTS AGREED TO CONVENE AN EXPERTS GROUP IN WASHINGTON ON MAY 20. GROUP WILL PROVIDE AGREED APPRECIATION OF TECHNICAL ABILITY OF PARTICIPANTS TO AGREE ON AND EXECUTE RESTRICTIVE MEASURES, BASED ON FRAU STEEG'S ELEMENTS OF A PROPOSAL, AND WILL SEE IF QUANTITATIVE RESTRICTIONS ON FRENCH CREDITS COULD EQUALIZE BURDENSARING WITH MEASURES WHICH MIGHT BE ACCEPTED BY THE OTHER SIX PARTICIPANTS. ASSUMING POSITIVE RESULTS BUCKLEY GROUP WILL MEET AGAIN IN PARIS MAY 27 IN FINAL ATTEMPT TO MAKE PROGRESS PRIOR TO SUMMIT. PROSPECTS FOR MEANINGFUL RESULTS APPEAR SLIGHT UNLESS FRENCH CHANGE THEIR POSITION. END SUMMARY.

3. SEVEN-HOUR MEETING WAS CHAIRED BY JEAN-CLAUDE PAYE WHO WAS ACCOMPANIED BY BACQUIAST, DIRECTOR OF DREE, AND JERGENSEN, ACTING HEAD OF INTERNATIONAL DIVISION OF TREASURY. UNDER SECRETARY BUCKLEY, ASSISTANT TREASURY SECRETARY LELAND, AND EMBASSY ECONOMIC MINISTER ELY REPRESENTED U. S. THREE-MAN DELEGATIONS WERE HEADED BY BRIDGES, U. K., TANAKA, JAPAN, AND LOEFF, EC, WHILE

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BY *CU*

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FRAU STEEG, BUCCI AND WARREN HEADED TWO-PERSON FRG, ITALIAN AND CANADIAN DELEGATIONS.

4. CHAIRMAN PROPOSED AND DELEGATIONS AGREED TO DISCUSS
1) FORECAST OF THE EVOLUTION OF THE HARD CURRENCY POSITION OF THE USSR OVER THE NEXT TEN YEARS; 2) FEASIBILITY OF AGREEMENT ON MECHANISMS TO REDUCE VOLUME OF CREDIT; AND 3) WILLINGNESS OF PARTICIPANTS TO ADOPT MEASURES AND THE RELATIONSHIP OF THESE MEASURES TO THE VERSAILLES SUMMIT.

5. REACTIONS TO U. S. STUDY. DISCUSSION WAS LOW KEY AND MAINLY UNCONTENTIOUS. GENERAL CONSENSUS FROM WHICH FRANCE (BACQUIAST) DISTANCED ITSELF WAS THAT THE STUDY IS BASICALLY ON THE MARK IN THE SHORT AND MEDIUM TERM BUT THAT LONG TERM PROJECTIONS ARE MUCH MORE DIFFICULT AND UNRELIABLE. BRITISH CIRCULATED TWO ASSESSMENTS OF THEIR OWN WHICH COMPLEMENT THE U. S. STUDY. JAPANESE, CANADIANS, ITALIANS EXPRESSED QUALIFIED AGREEMENT. FRAU STEEG NOTED IN PARTICULAR THAT SOVIETS HAVE ALREADY UNDERTAKEN MEASURES TO OVERCOME THEIR SHORT TERM FINANCIAL SQUEEZE.

6. BACQUIAST TOOK A SEPARATE LINE. THE FRENCH DO NOT SHARE THE VIEW THAT THE USSR IS A POOR MEDIUM TERM RISK. THE FRENCH JUDGE THE MEDIUM TERM PROSPECTS AS VERY GOOD. PARTICULARLY THE FRENCH NOTE THE USSR HAS ABILITY TO RESTRAIN IMPORTS WHICH CAN EASILY OFFSET POOR PROSPECTS FOR EXPORT MARKETS. THEY CONCLUDE THAT CREDIT RESTRAINTS WOULD NOT BE VERY HARMFUL FOR THE USSR SINCE THEY CONTRIBUTE LITTLE TO SOVIET CAPITAL FORMATION AND GROWTH AND THAT A POLICY TO RESTRAIN THEM WOULD BE UNWISE. THE FRENCH ALSO SUGGESTED THAT IF U. S. IS INTERESTED IN ECONOMIC WARFARE AGAINST THE USSR THE BEST WEAPON IS FOOD AND THE NEXT BEST ALL AND NOT JUST OFFICIALLY SUPPORTED CREDITS.

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7. ALL DELEGATIONS MENTIONED THAT EVENTS IN POLAND AND WORSENING SITUATION IN EASTERN EUROPE HAVE CAUSED AND IS CAUSING AN UPSURGE IN CAUTION ACROSS THE BOARD WHICH REFLECTS AND CAUSES A DIFFICULT SHORT-TERM POSITION FOR THE USSR.

8. PAYE SUMMARIZED 1) EVERYONE THINKS THE U. S. PAPER IS INTERESTING BUT HESITATES TO GIVE IT MUCH VALUE BEYOND FIVE YEARS; 2) THERE IS A GENERAL FEELING THAT THE SOVIET OUTLOOK IS WORSE IN THE SHORT THAN IN THE LONGER TERM MAINLY BECAUSE OF WORLD ENERGY NEEDS AND HUGE SOVIET ENERGY RESERVES; THE DIFFICULT SHORT TERM SITUATION HAS IMPROVED SLIGHTLY BECAUSE OF INITIAL SOVIET RESTRICTIONS IN IMPORTS; 3) NORMAL BANKING CRITERIA WOULD NOT LEAD TO ASSESSMENT OF POOR RISK FOR THE USSR; CREDIT WILL BE AVAILABLE BUT THE QUESTION IS WHO WILL BEAR THE RISK. U. K. ADDED THAT WORSENING SITUATION IN EASTERN EUROPE NEEDS ALSO TO BE TAKEN INTO ACCOUNT. THE BASIC DIFFERENCE WHICH UNDERLIES DIFFERENCES BETWEEN THE U. S. AND ITS PARTNERS LIES IN U. S. ADDITION OF POLITICAL FACTORS TO ECONOMIC AND FINANCIAL ANALYSES, I. E., U. S. AVERSION TO SUBSIDIES THROUGH CREDITS AND GUARANTEES TO WHAT IS VIEWED AS A POTENTIAL FOE, THEREBY HELPING TO INCREASE ITS MILITARY BUILDUP. PAYE ADDED THE RATIO OF SUBSIDIES TO TOTAL TRADE IS SMALL AND IF HEADS OF STATE ARE TO DISCUSS IT AT VERSAILLES THIS ELEMENT NEEDS TO BE PUT IN PROPER PERSPECTIVE.

9. ITEM 2. VIEWS ON MECHANISMS TO RESTRICT CREDIT AVAILABILITY.

- CANADA. FAVORS GREAT PRUDENCE IN CREDIT POLICY, BELIEVES SUBSIDIES MUST BE REDUCED, PREFERS TO AVOID QUANTITATIVE LIMITS, SEES ATTRACTIVE ELEMENTS IN STEEG PROPOSALS.

- JAPAN. PREPARED TO INTRODUCE RESTRAINTS BUT DESIRES SIMPLE MARKET-ORIENTED SYSTEM WHICH AVOIDS POLITICAL PROBLEMS OF ALLOCATING QUANTITATIVE RESTRICTIONS.

- U. K. BELIEVES VOLUME CONTROLS DIFFICULT BUT THAT RAISING THE COST OF CREDIT BY AGREEING TO FOUR OR FIVE POINTS ALONG THE LINES OF FRAU STEEG IS A FEASIBLE APPROACH. U. K. WOULD BE PREPARED TO TAKE STEPS IN

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SUMMIT CONTEXT.

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- FRG. REPEATED THAT VOLUME CONTROLS POSE DIFFICULTIES, STRESSED THAT CHANDELLOR WOULD NEED A SYSTEM ACCEPTABLE TO NEUTRALS, SUGGESTED THAT FRG INTERNALLY COULD RESTRICT PROPORTION OF GLOBAL GUARANTEES GOING TO USSR IN CONTEXT OF SUMMIT DECISIONS, AND NOTED THAT COMMON OBJECTIVE OUGHT TO BE TO FIND SOME ELEMENTS IN HER PROPOSALS ACCEPTABLE TO ALL AND SALABLE TO NEUTRALS. WHETHER CATEGORY I CHANGES COULD BE APPLIED ONLY TO USSR REMAINS OPEN.

EXDIS

- FRANCE. BACQUIAST MADE AGGRESSIVE ATTACK ON BURDEN-SHARING ASPECTS, ACCUSING THE U. S. OF EXCLUDING ITS CASH SALES OF CEREALS AND CONCENTRATING ON RESTRICTIONS ON CREDIT WHICH WOULD LIMIT FRENCH SALES OF CAPITAL GOODS AND INCREASE YAWNING FRENCH TRADE DEFICIT WITH USSR. HE STRESSED THAT FRANCE IS BOUND BY ITS TRADE PROTOCOL WHICH GOVERNS ALL ASPECTS OF TRADE CREDITS WITH USSR EXCEPT INTEREST RATES WHILE IT AND OTHER AGREEMENTS WITH USSR PROHIBIT DISCRIMINATORY TREATMENT. HE COMPLAINED THAT HAVING ABANDONED 7.8 PERCENT CREDITS FOR CONSENSUS RATES FRENCH PROJECT SALES TO USSR HAVE DROPPED TO ZERO WHILE NEUTRALS ARE CHEATING. CONSENSUS WAS CRITICISED AS INEQUITABLE AND LEADING TO UNEVEN BURDENSHARING. FRENCH SEE NO UTILITY IN NEGOTIATING ANOTHER ARRANGEMENT WITH THE SAME DRAWBACKS.

EXDIS

- U. S. BUCKLEY REPLIED TO BURDENSHARING COMMENT BY TICKING OFF THE TRADE EFFECTS OF U. S. WITHDRAWAL OF EXIM FINANCE IN 1974, RESTRICTIONS ON SALE OIL AND GAS EQUIPMENT, POST-AFGHANISTAN MEASURES INCLUDING CEREAL EMBARGO, MOST RECENT POST-POLISH TRADE RESTRICTIONS AND LOSS OF MARKET SHARES FOR CEREALS. LELAND ADDED THAT DISCUSSIONS OF FRENCH TRADE PROTOCOL HAVE GIVEN DIFFERENT DESCRIPTIONS OF ITS EFFECTS OVER THE YEARS AND THAT NONE OF OTHER PARTICIPANTS KNOWS ITS CONTENTS.

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- ITALY. SEES THE POLITICAL ELEMENT AS ROOT OF DIFFERENCES BETWEEN THE U. S. AND OTHERS. SUGGESTS FOLLOW-UP STUDIES TO EXAMINE COSTS OF SUBSIDIES AND GET BETTER CONTROL OF MOST EXPENSIVE OPERATIONS, BUT NOTES NEED FOR STUDY OF EFFECTS OF CREDIT RESTRICTIONS ON ITALIAN ECONOMY AND ON TRADE SECTORS MOST AFFECTED FOR ALL PARTICIPANTS.

10. TECHNICAL FEASIBILITY OF AGREEMENT ON POSSIBLE MEASURES.

- A. INCREASING PREMIUMS FOR INSURANCE AND GUARANTEES: PARTICIPANTS APPEAR TO HAVE SOME FLEXIBILITY BUT SOME COUNTRIES (U.K., FRANCE, JAPAN, PERHAPS ITALY) NEED A FORMAL ECONOMIC JUSTIFICATION TO CHANGE RATES.
- B. INCREASING PROPORTION OF CREDIT CARRIED BY EXPORTERS. FRG AND JAPAN USE AND COULD TIGHTEN THIS SYSTEM BUT OTHERS (U.K., FRANCE) PROVIDE FULL COVERAGE. PAYE STATED THIS APPROACH PRECLUDED BY PROTOCOL WITH SOVIETS.
- C. INCREASE IN DOWNPAYMENTS. ALL EXCEPT FRANCE AGREED THIS IS KEY AREA OF FLEXIBILITY AND MOST PROMISING AREA FOR JOINT ACTION. FRENCH STRESSED THAT UNDER PROTOCOL WITH USSR FRANCE IS PLEDGED WITHOUT EXCEPTION TO FINANCE 85 PERCENT OF PROJECT COST UNTIL PROTOCOL EXPIRES AT END OF 1985. NO POSSIBILITY OF MODIFICATION OR RENEGOTIATION.
- D. MANIPULATION OF DOWNPAYMENTS. MOST PARTICIPANTS HAVE SOME FLEXIBILITY IN REQUIREMENT FOR INITIAL PAYMENTS BETWEEN PAYMENTS AT SIGNATURE AND AT DELIVERY, ALTHOUGH THERE IS DOUBT THAT THIS ELEMENT COULD BE UNIFORMLY APPLIED. FRENCH NOTED THEIR PROTOCOL CALLS FOR SPECIFICATION OF PAYMENT DATES FOR TWO OF THE THREE FIVE PERCENT PAYMENTS, LEAVING FLEXIBILITY ONLY FOR ONE FIVE PERCENT PAYMENT. JAPANESE WOULD WANT A MATCHING CLAUSE TO MEET COMPETITION FROM THIRD PARTIES.
- E. LENGTH OF CREDITS. ALL PARTICIPANTS EXCEPT FRANCE HAVE AUTHORITY TO REDUCE CREDIT LENGTH TO FIVE YEARS. DURATION FRENCH CREDITS IS DEFINED IN PROTOCOL ACCORDING TO SIZE OF PROJECTS, WITH THOSE EXCEEDING FF 100 MILLION FIXED AT 8 1/2 YEARS. EC REP INTERJECTED THAT EC COMMISSION HAS LONG HAD A MANDATE TO NEGOTIATE

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FOR 20 PERCENT DOWNPAYMENT AND 5 YEAR MATURITIES IN CONSENSUS CATEGORY I, AND ASKED HOW THIS MANDATE COULD BE RECONCILED WITH FRENCH/USSR PROTOCOL. NO REPLY.
11. READINESS TO AGREE ON RESTRAINTS. AS DISCUSSIONS MOVED ON TO CONSIDER PREPAREDNESS OF PARTICIPANTS TO ENTER INTO DISCUSSIONS OF POSSIBLE FEATURES OF A RESTRAINT AGREEMENT, PAYE OPENED AND ENDED ITEM WITH ANNOUNCEMENT FRANCE IS UNPREPARED TO ENTER INTO SUCH DISCUSSIONS. ON INSTRUCTIONS FROM HIS PRIME MINISTER HE COULD SAY THAT FRANCE IS PREPARED ONLY TO AGREE

- -- TO TIGHTENED TECHNICAL CONTROLS AND MONITORING
- OF EXPORTS IN COCOM.
- -- TO ACT WITHIN THE CONSENSUS.

12. U. S. SIDE REPLIED THAT IN VIEW OF FRENCH POSITION AND THE LACK OF FLEXIBILITY IN FRENCH/USSR PROTOCOL THERE REMAINED NOTHING MORE TO DISCUSS. U. S. WOULD PROCEED UPON ITS OWN WAY, AND U. S. SIDE FOUND IT DIFFICULT TO UNDERSTAND WHY DISCUSSIONS HAD BEEN ALLOWED TO PROCEED SO FAR WHEN NO BASIS FOR AN AGREEMENT HAS IN FACT EXISTED. U. S. REPS WERE DEEPLY DISAPPOINTED IN OUTCOME AND WOULD REPORT THE RESULTS TO THEIR PRINCIPALS WHO WOULD DECIDE WHAT DECISIONS MIGHT BE TAKEN AS A CONSEQUENCE.

13. PAYE REPLIED THAT CONSIDERABLE PROGRESS IS UNDER WAY AS REGARD INTEREST RATES IN CONSENSUS. MOREOVER, IF HEADS OF GOVERNMENT ARE TO CONSIDER ISSUE AT VERSAILLES IT IS ESSENTIAL THAT THEY BE PROVIDED WITH AN AGREED BODY OF INFORMATION ("FILE") ON WHICH TO BASE THEIR DISCUSSIONS. FRG SUGGESTED THAT FRENCH MIGHT BE ABLE TO AGREE NOW TO INCREASE DOWNPAYMENTS IN 1985, PREMIUMS COULD BE ADJUSTED UPWARD AND A PACKAGE ASSEMBLED BY JUNE 1. U. K. AGREED AND SUGGESTED THAT AN EXPERTS GROUP EXAMINE AREAS IDENTIFIED FOR FURTHER WORK LEADING TO SOMETHING THAT COULD BE USED IN SUMMIT DECLARATION OR STATEMENTS, AND

FIND SOME POINTS THAT COULD BE PURSUED FURTHER IN OECD. JAPANESE SUPPORTED BY EC SUGGESTED THAT SINCE EVERYONE
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IMPORTANCE OF THE CONSENSUS CHANGES UNDER WAY AND SEIZED UPON THE PROPOSED EXPERTS GROUP AS A WAY OF PREVENTING A COMPLETE BREAKDOWN SOMETHING WHICH UK AND FRG SEEMED TO FEAR ALMOST EQUALLY. FRENCH ARE NOT OF COURSE COMMITTED TO ACCEPTING ANY BURDENSARING FORMULA THE GROUP MIGHT WORK OUT--AND THE TECHNICAL PROBLEMS MAY BE FORMIDABLE-- AND UNDER PRESENT INSTRUCTIONS COULD NOT DO SO.
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BUT FRENCH COULD INCREASE DOWNPAYMENTS, FRENCH MIGHT BE ABLE TO CONTRIBUTE BY OTHER MEANS SUCH AS THE LIMITATION OF THE PROJECT VOLUME APPROVED FOR FINANCING UNDER THE PROTOCOL. EC CALLED FOR EXPERTS TO HAVE A CLEAR MANDATE TO FIND AN EQUIVALENT BURDENSARING MEASURE.

14. FRENCH SUGGESTED THAT ABILITY TO BORROW IN LOW INTEREST FOREIGN CURRENCIES (ESPECIALLY YEN IF JAPANESE CAPITAL MARKET IS TRULY OPEN) COULD PROVIDE AN ALTERNATIVE TO SUBSIDIZED FRENCH CREDITS AND REDUCE SUBSIDY ELEMENT ALTHOUGH COFACE GUARANTEES WOULD HAVE TO BE GRANTED FOR FRENCH USERS OF THE FOREIGN CURRENCY CREDITS. JAPANESE ASSURED FRENCH THAT YEN BORROWINGS AVAILABLE.

15. PAYE SUMMED UP AGREEMENT FOR EXPERTS GROUP TO (1) DEVISE A "COMMON FILE" FOR VERSAILLES, (2) EXPLORE WAYS TO REACH A BURDENSARING FORMULA RELATING INCREASES IN DOWNPAYMENTS AND FRENCH VOLUME RESTRICTIONS, AND (3) PERHAPS EXAMINE PREMIUM INCREASES. REMAINING QUESTION IS WHETHER ANY NEW RULES WOULD APPLY TO ALL COUNTRIES IN CATEGORY I, IT BEING THE FRENCH STIPULATION THAT THIS WOULD BE NECESSARY IN ORDER TO ENTER INTO DISCUSSIONS, SINCE IN FRENCH VIEW THIS IS AN IMPORTANT POLITICAL QUESTION.

16. PAYE WILL IN NEXT FEW DAYS SEND THE PARTICIPANTS A TEXT OF MANDATE FOR EXPERTS GROUP. PARTICIPANTS AGREED GROUP WILL MEET IN WASHINGTON MAY 20 (NOTE: ASCENSION DAY, HOLIDAY IN FRANCE AND MANY OTHER EUROPEAN CAPITALS) WITH POSSIBILITY OF CONTINUING MORNING MAY 21. DELEGATIONS EXPECTED TO CONSIST OF TWO, THREE OR EVEN MORE EXPERTS.

17. PARTICIPANTS ALSO AGREED TO MEET AGAIN AT 3:30 P.M. AT SAME PLACE ON MAY 27 TO DISCUSS FINDINGS OF EXPERTS AND TO CONSIDER NEXT STEPS IN TIME TO FACTOR INTO SUMMIT PREPARATIONS.

18. COMMENT: UNDER SECRETARY BUCKLEY HAD BEEN TOLD BY PRESIDENTIAL ADVISOR JACQUES ATTALI AT LUNCH EARLIER IN THE DAY THAT U.S. SIDE COULD NOT EXPECT A POSITIVE POSITION FROM PAYE. FRENCH POSITION WAS IN FACT HARDER THAN THAT BOTH IN AGGRESSIVE PRESENTATIONS BY BACQUIAST AND IN PAYE'S ADDED STIPULATION OF NEED FOR FULL CONSENSUS AGREEMENT. PAYE AT SAME TIME TRIED HARD TO PLAY UP THE

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Week of May 17

May 16 - 20

Possible travel by Under Secretary Eagleburger to Europe

May 17-18

NATO Foreign Ministers Meeting, Luxembourg. Discuss report of SPC. Bilaterals with key allies.

File France Summit (issues) EW

Week of May 24

May 24

Possible second meeting of group of 7 Summit plus EC Commission financial experts in preparation for Summit. Plan ready for submission at Versailles Summit.

May 24-25

EC Foreign Ministers - Possibly receive Commission report on re-evaluation of East-West Export Credit Policy

Week of May 31

June 4-6

Versailles Summit approves mechanism for restraining official credits/guarantees to USSR.

Week of June 7

June 10-11

NATO Summit in Bonn

Drafted: EUR/RPE: SMercurio/JLibera:rr
3/31/82 x21533 (3574A)

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USE OF OECD, NATO AND EC COMMISSION TO ADVANCE

US INITIATIVE

OECD

- Strive within the OECD Consensus Arrangement to get reclassification of USSR to Category 1, to achieve maximum increase in Category 1 rates and, if possible, to do away with subsidized loans with maturities over 5 years among Category 1 countries.
- Encourage data gathering efforts and analyses on credit flows to COMECON of OECD committees including: Trade Committee's Export Credit Group and Working Party on East-West Trade, and Committee on Financial Markets.
- Use OECD as "consciousness raising" institution where we can make economic arguments about dangers of continuing present credit policies towards USSR.

NATO

NATO offers several fora in which to address the security aspects of our concerns regarding unregulated credit to the Soviet Union. The International Staff supporting the Economic Committee maintains a reporting system which may be adapted to

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serve the information and monitoring needs of initiative. Its membership offers the opportunity of exchange with the smaller Allies who were generally supportive of the Buckley mission's goals. Thus, some pressure may be brought to bear on the French and Germans here. NATO does not, however, possess the expertise to address the highly complex financial issues involved and would not be the proper forum for advancing the initiative as a whole if we hope to obtain cooperation from OECD neutrals.

EC

Senior Commission officials (Thorn, Haferkamp, Davignon) were very receptive to our initiative, as were the Belgians, currently the EC-10 Presidency country. At the March 29-30 European Council meeting (Heads of State), the EC Commission and member governments were charged with task of re-evaluating East-West export credit policy "in close consultation with other members of the OECD". We should seek to influence the outcome of this re-evaluation by offering our ideas to key EC states, the Belgian Presidency and the EC Commission.

Drafted:EUR/RPE:SMercurio/JLibera:rr
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MEMORANDUM

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NATIONAL SECURITY COUNCIL

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INFORMATION

May 17, 1982

*File
France
Summit
(issued)*

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *NAB*

SUBJECT: The Shultz Report to the President

In his report on his trip to the President, George Shultz made the following points:

1. He recommended the attached speech by Schmidt as being very representative of the Chancellor's current thinking (Tab I).
2. The allies are interested in realism and U.S. leadership at the Summit but not in confrontation.
3. It is very important that there be forward movement and that our allies get an accurate picture of our economic situation.
4. Our allies believe our high interest rates are slowing our growth and thus hurting them through the exchange rate mechanism. We should perhaps change our rhetoric on exchange rate intervention. ~~They attribute our high rates to our deficits.~~
5. We should respond to their initiatives on growth/investment/technology/new areas of concentration of resources. We do, of course, have a disagreement over the private/public roles in all this.
6. Policy coordination is welcome, but the limitations are obvious.
7. We should agree to consult with the Japanese on stabilizing the yen rate at a higher level. The Japanese seem to be thinking of 210/dollars.
8. We should not join the European attack on the Japanese.

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Review May 17, 1988

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9. He feels headway is being made on the issue of credit limitation to the Soviet Union, but argues that a monitoring mechanism must be established.

10. The allies agree on East European differentiation, especially for Yugoslavia and Hungary.

11. We are getting much bad publicity on North-South matters. The allies want global negotiations and are thinking in terms of commodity agreements and income guarantee programs for LDCs whose exports are severely limited.

12. Except for Schmidt, the allies do not appear interested in energy matters at this point. We should counter-balance this attitude by talking about synfuels, energy alternatives, etc.

13. The START speech was very well received.

14. If the Falklands crisis is not resolved soon, European support for Britain will fall off very sharply.

15. A high official of the Ministry of Finance in Ottawa stated that the Canadian economy is moving rapidly to catastrophe.

Attachment

Tab I Schmidt Speech

- cc: Reed
- Gregg
- Rentschler
- Nau
- Robinson

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EXDIS, BRUSSELS FOR EMBASSY AND USEEC
E.O. 12065: GDS 5/19/88 (HORMATS, ROBERT D.)
TAGS: EGEN, EFIN, OVIP, EEWT
SUBJECT: HORMATS' LETTER TO SHERPAS

1. ~~SECRET~~ - ENTIRE TEXT.

2. EMBASSY REQUESTED TO DELIVER THE LETTER IN PARAS. 3
THRU , TO HOST COUNTRY PERSONAL REPRESENTATIVE FOR THE
VERSAILLES SUMMIT: ATTALI (FRANCE); MARCHAND (CANADA);
MATSUNAGA (JAPAN); BERLINGUER (ITALY); VAN YPERSELE
(BELGIUM); DURIEUX (EC); SHULMANN (GERMANY); ARMSTRONG (UK).

3. DEAR (FIRST NAME):

I HAVE REPORTED TO MY AUTHORITIES ON OUR CONVERSATIONS LAST
WEEKEND. ON MOST ISSUES THE PROGRESS WE MADE WAS VERY
WELL RECEIVED. BUT ON EAST-WEST ECONOMIC RELATIONS, AND
PARTICULARLY THE ISSUE OF SOVIET CREDITS, THAT WAS NOT THE
CASE. I MUST TELL YOU CANDIDLY THAT THE REACTION HERE TO
JIM BUCKLEY'S BEING TOLD, AT A RELATIVELY LATE DATE IN
THIS PROCESS, THAT FRANCE'S BILATERAL PROTOCOL WITH THE
SOVIET UNION APPARANTLY PREVENTS IT FROM ENGAGING IN ALMOST
ANY KIND OF RESTRAINTS, OR COVERAGE LIMITATIONS, ON CREDITS
TO THE SOVIETS, HAS BEEN ONE OF EXTREME DISAPPOINTMENT. WE
WERE ALSO TOLD THAT THE PROTOCOL IN QUESTION HAD BEEN

NOTIFIED TO THE OECD AND THAT WE SHOULD HAVE BEEN AWARE OF
IT. WE ARE OF COURSE AWARE OF AN AGREEMENT, BUT WE HAVE
BEEN GIVEN CONFLICTING ACCOUNTS OF ITS STIPULATIONS. IN
FACT, THAT AGREEMENT HAS NEVER (UNDERLINED) BEEN SHOWN TO
US IN SPITE OF REPEATED REQUESTS FOR IT. ANOTHER CURIOUS
AND PUZZLING FACT POINTED OUT AT THE BUCKLEY GROUP MEETING
WAS THAT THE EC NEGOTIATOR HAS FOR SOME TIME HAD A MANDATE
WHICH WOULD HAVE ALLOWED CERTAIN OF THE LIMITATIONS WE WERE
DISCUSSING. NOW WE ARE TOLD THAT THAT MANDATE IS BEING
PULLED BACK, OR IS IRRELEVANT, BECAUSE OF THE BILATERAL
PROTOCOL. THIS IS INCONSISTENT WITH THE POSITION OUTLINED
TO SECRETARY REGAN THAT THE FRENCH WERE WILLING TO CONSIDER
REDUCTIONS IN OFFICIAL COVERAGE. ALL THIS IS, TO SAY THE
LEAST, PUZZLING AND FRUSTRATING.

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4. I MUST CONFESS TO SOME DOUBTS AS TO WHERE WE GO FROM HERE ON THIS ISSUE. THIS LAST MINUTE CHANGE OF SIGNAL ON AN ISSUE OF SUCH IMPORTANCE, AND ONE WHICH WE HAVE BEEN SEARCHING FOR A CONSENSUS SOLUTION, IS A MATTER OF GREAT CONCERN TO MY GOVERNMENT AND RAISES MANY QUESTIONS. I HAVE, AS I MENTIONED AT LUNCH, FAITH THAT, IF ALL OF OUR COUNTRIES WORK TOGETHER WELL AND PURPOSEFULLY, AN AGREEMENT CAN BE REACHED WHICH AVOIDS THE PROBLEMS OF INEQUITY AND PUTS TO REST THE CONCERNS ABOUT THE "ECONOMIC WARFARE" WHICH SOME OF YOU HAVE EXPRESSED. THIS IN OUR VIEW MUST GO BEYOND SIMPLY INCREASING DOWNPAYMENTS WHICH, WHILE IMPORTANT IN ITS OWN RIGHT, IS NOT CONSIDERED BY MOST PEOPLE HERE TO BE ADEQUATE. I CAN ONLY REITERATE, HOWEVER, THAT MY PRESIDENT HAS STRESSED THE NEED FOR CONSIDERABLY GREATER PROGRESS THAN HAS BEEN MADE TO DATE TO REACH A SATISFACTORY AGREEMENT BEFORE OR AT VERSAILLES.

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5. AS YOU KNOW, AN EXPERTS MEETING IS BEING SCHEDULED FOR THURSDAY, MAY 20, AT WHICH I ASSUME THE BILATERAL PROTOCOL WILL BE AVAILABLE SO THAT WE CAN JOIN WITH FRANCE IN FINDING A SOLUTION WHICH IS CONSISTENT WITH THE ABOVE OBJECTIVES. WE WILL HAVE TO KNOW BY THE CONCLUSION OF THAT MEETING WHETHER IT WILL BE POSSIBLE TO REACH AGREEMENT ON THIS ISSUE BY THE TIME OF THE SUMMIT. I AM ALREADY UNDER GREAT PRESSURE TO IDENTIFY A VARIETY OF OTHER EAST-WEST ISSUES FOR DISCUSSION AT THE SUMMIT IF AGREEMENT CANNOT BE REACHED ON THIS ONE.

EXDIS

6. I LOOK FORWARD TO HEARING ANY THOUGHTS YOU HAVE ON THIS MATTER. I RAISE THIS SUBJECT IN THE SPIRIT OF CANDOR, WHICH CHARACTERIZED OUR DISCUSSIONS ON THIS SUBJECT LAST WEEKEND. NOT HAVING BEEN GIVEN AN OPPORTUNITY TO SEE THE PROTOCOL IN QUESTION, I CANNOT KNOW HOW MUCH FLEXIBILITY IT PROVIDES, BUT I WOULD NOTE THAT BEFORE OUR LAST MEETING I WENT TO MY AUTHORITIES IN SEVERAL AREAS TO GET FLEXIBILITY ON THE DECLARATION IN ORDER TO COME TOWARD SOME OF YOUR POSITIONS ON MATTERS IMPORTANT TO YOU, AND WAS GRATEFUL FOR FLEXIBILITY SHOWN BY YOU AND OTHERS IN THAT SAME SPIRIT. WITH A MODICUM OF WILL AND INGENUITY, I AM CONFIDENT THAT WE COULD FIND WAYS WITHIN THE CONTEXT OF THE PROTOCOL TO RESOLVE THIS PROBLEM SATISFACTORILY. I GENUINELY WANT TO AVOID HAVING THIS ISSUE BECOME A DEVISIVE ONE AT VERSAILLES, AS I KNOW YOU DO. BUT I CANNOT FAIL TO REPRESENT AS ACCURATELY AS I CAN THE VIEWS WHICH PRESIDENT REAGAN AND SEVERAL MEMBERS OF THE CABINET HAVE STRESSED TO ME ON THIS MATTER.

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7. I LOOK FORWARD TO SEEING YOU SOON AT VERSAILLES. WARM REGARDS. BOB HORMATS. HAIG
BT

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EXDIS, BRUSSELS FOR USEC
E. O. 12065: GDS 5/22/88 (MILAM, WILLIAM B.)
TAGS: EFIN

USSR

1. THE FOLLOWING IS TEXT OF REPORT ON CREDITS TO THE USSR SUBMITTED BY GROUP OF EXPERTS BASED ON MAY 20-21 MEETING IN WASHINGTON.
2. BEGIN TEXT. THE GROUP OF EXPERTS MET IN WASHINGTON MAY 20-21 AND CONSIDERED THE ISSUES RAISED IN ITS MANDATE.

THE EXPERTS' REPORT FOLLOWS AND INCLUDES:

1. AN AGREED DOSSIER ON THE PRESENT SOVIET HARD CURRENCY POSITION AND PROSPECTS FOR THE FUTURE. THE EXPERTS ALSO AGREED ON A FORMAT FOR PARTICIPANT PRESENTATIONS OF THE HIGHLIGHTS OF THEIR BILATERAL RELATIONS WITH THE USSR.
2. A REVIEW OF THE TECHNICAL FEASIBILITY FOR DIFFERENT COUNTRIES OF ALTERNATIVE CREDIT RESTRAINT MECHANISMS (INCLUDING RAISING FEES FOR GUARANTEES AND INSURANCE).
3. A REVIEW OF THE ISSUE OF EQUALIZING BURDENSARING AMONG COUNTRIES ADOPTING DIFFERENT RESTRAINT MEASURES AND THE NEED FOR A MONITORING MECHANISM. THE COMMON DOSSIER.

THE EXPERTS' DISCUSSION OF A COMMON DOSSIER WAS CONDUCTED IN TWO PARTS, NAMELY (1) A REVIEW OF THE SOVIET HARD CURRENCY POSITION AND PROSPECTS, AND (2) A SURVEY OF EACH PARTICIPANT'S BILATERAL ECONOMIC RELATIONS WITH THE USSR. THE GROUP AGREED ON A SHORT TEXT AND A COLLECTION OF DATA SUMMARIZING THEIR VIEWS ON THE FIRST ITEM, AS FOLLOWS.

THE SOVIET HARD CURRENCY POSITION AND PROSPECTS.
BASIC FACTS.

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-- THE SOVIET HARD CURRENCY POSITION HAS WORSENERD IN THE LAST 18 MONTHS AS A RESULT OF FALLING OIL PRICES, POOR HARVESTS, SLUGGISH WESTERN MARKETS AND POLAND'S FINANCIAL NEEDS.

-- IN RESPONSE TO THIS SITUATION THE USSR HAS SOLD MORE GOLD IN A DEPRESSED MARKET, CUT IMPORTS AND INCREASED ITS USE OF SHORT TERM CREDIT.

-- GROSS SOVIET DEBT AT THE END OF 1981 TOTALED DOLS 21 BILLION. WITH HARD CURRENCY ASSETS OF ABOUT DOLS 8 BILLION IN WESTERN BANKS, NET DEBT AMOUNTED TO ABOUT DOLS 12.6 BILLION.

-- NET DEBT SERVICE PAYMENTS AMOUNTED TO ABOUT DOLS 5 BILLION IN 1981, WHICH RESULTS IN A MODERATE DEBT SERVICE RATIO OF UNDER 20 PERCENT.

KEY JUDGEMENTS.

PROSPECTS FOR SOVIET HARD CURRENCY EARNINGS.

THE PURCHASING POWER OF SOVIET HARD CURRENCY EARNINGS IS UNLIKELY TO INCREASE AND MAY DECLINE DURING THE NEXT FEW YEARS (THROUGH THE MID 1980'S).

-- THE VOLUME OF OIL EXPORTS TO THE WEST WILL PROBABLY CONTINUE TO DECLINE; OIL PRICES HAVE FALLEN SHARPLY IN REAL TERMS DURING THE PAST YEAR AND OIL MARKET CONDITIONS DO NOT APPEAR CONDUCIVE FOR A PRICE INCREASE IN REAL TERMS IN THE NEXT FEW YEARS.

-- HIGHER SOVIET EARNINGS FROM GAS EXPORTS WILL PROBABLY NOT OFFSET THE DECLINE IN OIL EXPORTS AT LEAST UNTIL THE YAMAL PIPELINE IS COMPLETED.

-- PROSPECTS FOR OTHER SOVIET EXPORTS ARE MIXED: ALTHOUGH EXPORTS OF SOME PRODUCTS, ESPECIALLY CHEMICALS, SHOULD INCREASE, IT WILL BE DIFFICULT FOR THE SOVIETS TO AVOID DECLINES IN EARNINGS FROM EXPORTS OF WOOD AND ARMS.

EXPORT PROSPECTS FOR THE LATE 1980'S AND BEYOND ARE FAR MORE UNCERTAIN THAN THOSE FOR THE NEXT FEW YEARS. OIL EXPORT VOLUME MAY DECLINE FURTHER OR OIL EXPORTS MAY CEASE; ON THE OTHER HAND REAL OIL PRICES MAY INCREASE, AND THERE WOULD BE TIME TO DEVELOP OTHER EXPORTS.

SOVIET IMPORT POSSIBILITIES.

THE SOVIETS APPARENTLY HAVE BEEN PLANNING FOR INCREASES OF 2 TO 3 PERCENT A YEAR IN THE VOLUME OF IMPORTS FROM THE WEST DURING 1981-85.

THE PERFORMANCE OF THE SOVIET ECONOMY HAS BEEN FAR WORSE THAN PLANNED, BOTH IN INDUSTRY AND IN AGRICULTURE. THE LONGER-TERM OUTLOOK IS FOR A RATE OF SOVIET ECONOMIC GROWTH INADEQUATE TO SUSTAIN THE RAPID EXPANSION OF MILITARY SPENDING WHILE AT THE SAME TIME RAISING CONSUMER WELFARE -- IN OTHER WORDS, THE SOVIET ECONOMIC SETTING WILL BE GREATLY DIFFERENT THAN IN THE PAST.

A DETERIORATION OF ECONOMIC PERFORMANCE WILL MAKE ADDITIONAL IMPORTS FROM THE WEST ESPECIALLY VALUABLE TO THE USSR. BUT IF SOVIET EXPORT EARNINGS STAGNATE OR DECLINE IN THE NEXT FEW YEARS, IMPORTS CANNOT BE INCREASED WITHOUT A GROWING NET OUTFLOW OF WESTERN CAPITAL TO THE USSR, WHICH WOULD MEAN A FURTHER INCREASE IN THE SOVIET

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HARD CURRENCY DEBT.

SOVIET POLICY CONCERNING WESTERN CREDITS AND HARD CURRENCY DEBT.

IN PAST YEARS, MOSCOW HAS FOLLOWED CAUTIOUS BALANCE OF PAYMENTS AND DEBT POLICIES, BUT TO AVOID A SUBSTANTIAL ACCUMULATION OF HARD CURRENCY DEBT WILL REQUIRE PAINFUL STEPS ON MOSCOW'S PART. ADDITIONAL IMPORT CUTS WOULD INVOLVE EITHER VERY HIGH PRIORITY PROJECTS, MAJOR PRODUCTS IN SHORT SUPPLY, ESPECIALLY STEEL, OR POLITICALLY SENSITIVE GRAIN IMPORTS.

AS REGARDS THE EXPERTS' SERVEY OF BILATERAL ECONOMIC RELATIONS WITH THE USSR, MOST DELEGATIONS FOUND THAT THEY DID NOT HAVE ALL THE RELEVANT DATA AND ANALYSIS AT HAND. THEY

DID AGREE, HOWEVER, THAT THIS SUBJECT CAN BEST BE PRESENTED

VIA (A) A SET OF KEY FACTS AND FIGURES ARRANGED IN A COMMONLY-AGREED FORMAT, AND (B) SHORT (ONE-PAGE) ANALYSES TO BE PREPARED BY EACH DELEGATION. THE AGREED FORMAT FOR THE DATA IS DISPLAYED ON THE FOLLOWING PAGE. THE EXPERTS AGREED TO FURNISH TO ALL DELEGATIONS THE COMPLETED TABLES, PLUS THEIR ANALYTICAL TEXTS, BY THURSDAY, MAY 27.

THE TECHNICAL FEASIBILITY OF VARIOUS CREDIT MANAGEMENT OPTIONS.

THE EXPERTS' MANDATE REQUIRED THEM TO CONSIDER, UNDER ITEM (2) THE POSSIBILITY OF RAISING INSURANCE, GUARANTEE, OR COMMITMENT FEES, AND, UNDER ITEM (3) EXAMPLES OF TECHNIQUES WHICH COULD BE ANALYZED UNDER THE RUBRIC OF BURDENSARING. IT WAS AGREED RAPIDLY AND VIRTUALLY WITHOUT DISCUSSION THAT THE RAISING OF FEES IS A TECHNICALLY FEASIBLE STEP FOR ALL PARTICIPANTS.

THE GROUP'S VIEWS ON FEES AND OTHER POSSIBLE MECHANISMS FOR CREDIT MANAGEMENT ARE DISPLAYED IN THE MATRIX FORMAT PRESENTED ON THE FOLLOWING PAGE, WITH NOTES. THE EXPERTS AGREED THAT THE YES/NO RESPONSES PROVIDED IN THE MATRIX RELATE ONLY TO THE (BEGIN UNDERLINE) STRICTLY LEGAL/TECHNICAL (END UNDERLINE) FEASIBILITY OF THE VARIOUS MEASURES WITHIN THE INDIVIDUAL NATIONAL SYSTEMS. THEY DO NOT REPRESENT POLICY JUDGEMENTS. THE ATTACHED FOOTNOTES ATTEMPT TO EXPLAIN CERTAIN NUANCES ADDUCED BY VARIOUS DELEGATIONS IN ELABORATION OF THEIR JUDGEMENTS ON TECHNICAL FEASIBILITY.

BURDENSARING AND MONITORING.

THE APPLICATION OF DIFFERENT RESTRAINT MECHANISMS BY DIFFERENT COUNTRIES TO MODERATE FLOWS OF CREDIT TO THE USSR APPEARS TO BE THE ONLY PRACTICAL SOLUTION, IN TERMS OF TECHNICAL FEASIBILITY. SEVERAL COMBINATIONS OF MECHANISMS COULD BE CONTEMPLATED BUT, CLEARLY, ANY SUCH SOLUTION REQUIRES A SATISFACTORY MECHANISM FOR BURDENSARING. THE GROUP OF EXPERTS REVIEWED THE PROBLEMS OF BURDENSARING THE EXPERTS DID NOT OFFER FINAL VIEWS ON SPECIFIC BURDENSARING-FORMULAS IN THE ABSENCE OF-DECISIONS-ON THE EXACT PACKAGE OF MEASURES TO BE ADOPTED BY EACH COUNTRY. THEY DID AGREE THAT IT WOULD BE TECHNICALLY FEASIBLE TO COMPUTE EQUIVALENT BURDENSARING PACKAGES FOR DIFFERENT MECHANISMS AND THAT THE GROUP COULD RAPIDLY MEET AGAIN TO WORK OUT SPECIFIC BURDENSARING MODALITIES IF THE BROAD OUTLINES OF A COMPROMISE COULD BE AGREED UPON AT A HIGHER LEVEL.

-- THE EXPERTS AGREED THAT BURDENSARING FORMULAS CANNOT

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FULLY ACCOUNT FOR ALL DIFFERENCES IN THE ATTRACTIVENESS OF THE ALTERNATIVE PACKAGES. NOR CAN THEY PROVIDE IRONCLAD PROOF AGAINST EVASION, MISTAKES, OR DEFICIENCIES IN DESIGN THE GROUP OF EXPERTS AGREED, THEREFORE, THAT SEMIANNUAL REVIEWS OF THE SYSTEM, BASED ON TRANSPARENCY AND FULL EXCHANGES OF INFORMATION AMONG PARTICIPATING COUNTRIES IS ESSENTIAL. THE INFORMATION EXCHANGE SHOULD COVER ALL OFFICIALLY SUPPORTED AND PRIVATE CREDITS, BOTH LONG AND SHORT TERM, AND SHOULD INCLUDE DATA ON TRANSACTION VALUES, OFFICIAL SUPPORT COMMITMENTS (DIRECT CREDITS AND GUARANTEES), DISBURSEMENTS, UNDRAWN COMMITMENTS, SCHEDULED REPAYMENTS OF PRINCIPAL AND INTEREST, AND BILATERAL TRADE DATA.

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WHILE DELEGATIONS EXPRESSED NO FINAL VIEWS ON THE ADVISABILITY OF ANY ONE COMBINATION OF MEASURES, THEY PREPARED SOME ILLUSTRATIVE EXAMPLES OF POSSIBLE APPROACHES TO THE BURDENSARING QUESTION. THESE EXAMPLES ARE NOT EXHAUSTIVE OF THE POSSIBILITIES AND THEY DO NOT IMPLY JUDGEMENTS ON WHETHER THEY WOULD BE SATISFACTORY AND ACCEPTABLE ACTIONS ON CREDITS TO THE USSR.

EXAMPLES OF BURDENSARING SOLUTIONS FOR COMBINATIONS OF MEASURES THAT ARE TECHNICALLY FEASIBLE FOR DIFFERENT COUNTRIES.

INTRODUCTION.

EXDIS

A BASIC PRINCIPLE OF BURDENSARING INVOLVES CONSISTENCY OF PRACTICE AMONG PARTICIPANTS. THE EXPERTS RECOGNIZED, FOR EXAMPLE, THAT, SHOULD A COUNTRY ADOPT SOME FORM OF REDUCTION IN COVER FOR A TRANSACTION AS A WHOLE (E.G. LESS GUARANTEE COVER OR LESS DIRECT CREDIT), IT COULD UNILATERALLY OFFSET THE EFFECTS AT LEAST IN PART BY ALTERING ITS PRACTICE TO APPLY GREATER COVER TO THE RISKIER LATER MATURITIES AND LESSER COVER TO THE LESS RISKY, MORE "BANKABLE" EARLIER MATURITIES. THIS PROBLEM OF BURDENSARING VIS A VIS COUNTRIES WHICH TAKE OTHER ACTIONS CAN BE CURED BY THE SIMPLE DEVICE OF AGREEING TO CONTINUE THE CURRENT PRACTICE WHEREBY THE COVERED AND UNCOVERED PORTIONS OF A FINANCING ARE REPAYED, PARI-PASSU, ACROSS ALL MATURITIES SUCH THAT OFFICIAL- (OR-OFFICIALLY COVERED) AND UNCOVERED CREDITORS BEAR -EQUIVALENT RISK OVER THE LIFE OF THE CONTRACT. WITH THIS SORT OF CONSISTENT PRACTICE ESTABLISHED AMONG PARTICIPANTS BY AGREEMENT, THE DESIGN OF BURDENSARING MECHANISMS SUCH AS THOSE ILLUSTRATED BELOW ACQUIRES GREATER SIMPLICITY AND TRANSPARENCY. EXAMPLES.

EXDIS

A. A PACKAGE OF MEASURES THAT APPEARS AS A POSSIBLE COMBINATION BASED ON THE TECHNICAL FEASIBILITY MATRIX WOULD HAVE MOST COUNTRIES AGREE TO INCREASE THE CASH PAYMENT TO, FOR EXAMPLE, 40 PERCENT OF CONTRACT VALUE AND REDUCE THE REPAYMENT PERIOD TO FIVE YEARS. OTHER COUNTRIES COULD CHOOSE TO REDUCE THE PERCENTAGE OF OFFICIAL FINANCING. PRIVATE FINANCING, AT A HIGHER INTEREST RATE, WOULD BE USED TO FINANCE THE BALANCE OF THE 85 PERCENT FINANCED PORTION OF THE TRANSACTION. THE BLENDED INTEREST RATE (FOR 85 PERCENT COVER AT 8.5 YEARS) WOULD THUS BE HIGHER.

B. THE BURDENSARING PROBLEM IN A CASE LIKE THIS CAN BE SOLVED BY ADJUSTING THE BLENDED INTEREST RATE FOR THE 85 PERCENT LOAN ON THE BASIS OF A PRESENT VALUE CALCULATION. SOME DELEGATIONS SUGGESTED THAT ANOTHER ANALYTICAL APPROACH TO THE SAME END COULD BE THE USE OF A "GRANT ELEMENT" FORMULA, AND ALL DELEGATIONS AGREED THAT OTHER TECHNICAL APPROACHES EXIST AS WELL. ACCOUNTING FOR THE USE OF DIFFERENT CURRENCIES ALSO WAS MENTIONED. THE KEY POINT WHICH WOULD BE RECOGNIZED IN ANY FORMULA IS THAT THE DEGREE OF RESTRICTIVENESS IMPLIED BY A REDUCTION IN COVER

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AND/OR MAXIMUM MATURITY CAN BE MATCHED IN A BURDENSARING SENSE BY AN INCREASE IN THE COST OF A CREDIT WITH GREATER COVER AND/OR LONGER TERM -- AND THAT THE BURDENSARING EQUIVALENCE CAN BE CALCULATED, SUBJECT TO VERIFICATION BY A MONITORING MECHANISM.

IN A VARIATION ON THE COMBINATION OF MEASURES DESCRIBED ABOVE, THOSE COUNTRIES WHICH DID NOT CHOOSE TO RAISE DOWNPAYMENTS AND/OR LIMIT OFFICIAL SUPORT COULD ADOPT AN OVERALL QUANTITATIVE LIMIT ON THEIR TOTAL CREDITS TO THE USSR. A STRAIGHTFORWARD METHOD IS AVAILABLE FOR CALCULATING SUCH A LIMIT SO THAT THE BURDEN BORNE BY ALL COUNTRIES IS EQUIVALENT.

AS WAS REFLECTED IN THE EXPERTS' TECHNICAL DISCUSSIONS, INCREASES IN INSURANCE, GUARANTEE, OR COMMITMENT FEES ARE FEASIBLE FOR ALL COUNTRIES. HERE, BURDENSARING CONSIDERATIONS ARE RELATIVELY STRAIGHTFORWARD AND, IN FACT, CAN BE EMBODIED AUTOMATICALLY IN ANY INCREASE THAT WOULD BE NEGOTIATED, IN THE SENSE THAT PARTICIPANTS COULD AGREE TO UNIFORM PROPORTIONAL CHANGES IN SUCH "UP-FRONT" CHARGES SUCH THAT NO LOSS IN PERCEIVED COMPETITIVENESS RELATIVE TO THE STATUS QUO ANTE WOULD RESULT. END TEXT.
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EXDIS, BRUSSELS FOR USEC
E.O. 12065; GDS 5/22/88 (MILAM, WILLIAM B.)
TAGS: EFIN
SUBJECT: MEETING OF TECHNICAL EXPERTS ON CREDITS TO SOVIET UNION

REF: PARIS 17344

1. SUMMARY. THE GROUP OF EXPERTS MET MAY 20-21 AT DEPARTMENT OF TREASURY TO AGREE ON A COMMON ASSESSMENT OF PRESENT AND FUTURE SOVIET ECONOMIC PROSPECTS AND LAY THE TECHNICAL GROUNDWORK FOR A CREDIT RESTRAINT AGREEMENT EMBODYING THE PRINCIPLE OF EQUITABLE BURDEN-SHARING. MEETINGS WERE PRODUCTIVE, AND THERE WAS GENERAL AGREEMENT THAT A TECHNICAL BASIS DOES EXIST FOR AN AGREEMENT ON OFFICIAL-CREDIT RESTRAINTS. SUCH-A BASIS WOULD PROBABLY INVOLVE A MIX OF ONE OR MORE CREDIT MEASURES INCLUDING INCREASING DOWNPAYMENTS, SHORTENING MATURITIES, REDUCING OFFICIAL FINANCIAL OR GUARANTEE COVER AND RAISING INSURANCE FEES. THE U.S. QUANTITATIVE RESTRICTION APPROACH, BY CONTRAST, WAS RESISTED BY NEARLY ALL, WHO SAW RAISING COSTS OF LENDING TO USSR AS MORE FEASIBLE. FRENCH CONCERNS REMAIN MAIN PROBLEM BUT DELEGATION INDICATED SOME FLEXIBILITY UNDER PROTOCOL WITH USSR, BOTH ON INTEREST RATES CHARGED AND NUMBER OF CONTRACTS APPROVED. ALL PARTICIPANTS STRESSED THAT THEIR AGREEMENT AS TO TECHNICAL FEASIBILITY COULD NOT BE TAKEN TO IMPLY POLITICAL APPROVAL. A FULL TEXT OF GROUP OF EXPERTS REPORT (MINUS TABLES AND MATRIX) WILL BE SENT SEPTEL. END SUMMARY.

2. MEETING OF TECHNICAL EXPERTS CONVENED MAY 20 UNDER CHAIRMANSHIP OF TREASURY DAS ROBERT CORNELL AT DEPARTMENT OF TREASURY. US DELEGATION CONSISTED OF DAS JOHNSTON (STATE), DAS VARGO (COMMERCE), ERNST (CIA), AND GOLDSTEIN (DOD). HEADS OF FOREIGN DELEGATIONS WERE AS FOLLOWS:

- FRANCE: JOUTARD
- UK: TWYFORD
- JAPAN: OKABE
- CANADA: WELSH

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- ITALY: BATTISTINI
- FRG: GEHRING
- EC: NEUMANN

EXDIS

3. MEETING WAS DIVIDED INTO THREE PARTS FOLLOWING PAYE MANDATE -- A DISCUSSION OF A "COMMON BRIEF," EXAMINATION OF THE TECHNICAL/LEGAL FEASIBILITY OF ALTERNATIVE CREDIT MANAGEMENT OPTIONS, AND A DISCUSSION OF POSSIBLE APPROACHES TO BURDENSARING.

EXDIS

4. COMMON BRIEF. PARTICIPANTS REVIEWED SHORT ONE AND A HALF PAGE ASSESSMENT OF SOVIET HARD CURRENCY POSITION AND PROSPECTS, DISTILLED FROM CIA TEXT DISTRIBUTED AT APRIL 23 PARIS MEETING. WITH MINOR ALTERATIONS, TEXT WAS ADOPTED WITHOUT MAJOR COMMENT. THE FRENCH DELEGATION, TAKING A MORE OPTIMISTIC VIEW OF SOVIET MEDIUM AND LONG-TERM ECONOMIC PROSPECTS STRESSED, HOWEVER, THE SOVIET RECORD OF PRUDENT FINANCIAL MANAGEMENT, THE UNCERTAINTY OF FUTURE PERFORMANCE OF REAL OIL PRICES, AND THE LIKELIHOOD THAT FUTURE SOVIET GAS EARNINGS WOULD HELP THE SOVIETS MAINTAIN A HEALTHY FINANCIAL CUSHION DURING THE LAST HALF OF THE DECADE. THE FRENCH ALSO MADE THE POINT THAT THE SOVIET DEBT SERVICE RATIO REMAINED VERY MANAGEABLE (UNDER 20 PERCENT) IN COMPARISON TO CERTAIN LATIN AMERICAN COUNTRIES, FOR WHICH THE U. S. WAS NOT SEEKING CREDIT RESTRICTIONS.

EXDIS

5. AT THE INSISTENCE OF THE FRENCH DELEGATION, IT WAS AGREED THAT THE COMMON BRIEF WOULD INCLUDE BILATERAL TRADE AND CREDIT DATA WITH THE USSR TO HIGHLIGHT THE RELATIVE IMPORTANCE OF EACH COUNTRY'S ECONOMIC RELATIONS WITH THE SOVIET UNION. ON THE CREDIT DATA, IN PARTICULAR, THE FRENCH DELEGATION INSISTED THAT PRIVATE UNGUARANTEED

SHORT AND MEDIUM/LONG-TERM CREDITS AS WELL AS OFFICIAL CREDITS AND CREDIT GUARANTEES BE INCLUDED IN THE COUNTRY DATA SHEETS. IT WAS ALSO AGREED THAT EACH COUNTRY WOULD BE PERMITTED ONE PAGE OF COMMENTARY TO HIGHLIGHT THOSE ASPECTS OF ITS TRADE/FINANCIAL RELATIONS WITH THE SOVIETS THAT IT DEEMED MOST IMPORTANT. EACH DELEGATION AGREED TO CIRCULATE COMPLETED DATA SHEETS TO THE OTHER PARTICIPANTS IN ADVANCE OF THE MAY 27 HIGH LEVEL MEETING.

EXDIS

6. TECHNICAL FEASIBILITY OF ALTERNATIVE CREDIT RESTRAINT OPTIONS. THE U. S. DELEGATION TABLED A MATRIX QUESTIONNAIRE THAT INCLUDED A LIST OF CREDIT RESTRAINT MEASURES RAISED IN THE PREVIOUS HIGH LEVEL MEETINGS. THE PURPOSE OF THE MATRIX WAS TO ESTABLISH AS CLEARLY AS POSSIBLE EACH COUNTRY'S POSITION ON THE TECHNICAL/LEGAL FEASIBILITY OF ADOPTING EACH MEASURE. (IT WAS UNANIMOUSLY AGREED THAT THE MANDATE OF THE DELEGATION WAS NOT TO PASS JUDGEMENT ON THE POLITICAL DIFFICULTY OF ADOPTING CERTAIN MEASURES. IN RESPONDING TO THE MATRIX QUESTIONS, A CLEAR DISTINCTION BETWEEN THE TWO CONCEPTS HAD TO BE MADE.)

7. THE GENERAL CONCLUSION FROM THE EXAMINATION OF COUNTRY RESPONSES ON ALL THE ALTERNATIVE RESTRAINT MEASURES WAS THAT EACH COUNTRY TECHNICALLY HAD THE ABILITY TO ADOPT TWO OR MORE OF THE EIGHT CREDIT MEASURES OUTLINED SHOULD THERE BE A POLITICAL DECISION TO DO SO. THESE MEASURES AND INDIVIDUAL COUNTRY RESPONSES REGARDING TECHNICAL FEASIBILITY WERE AS FOLLOWS:

- A. INCREASE CASH PAYMENT AS A PERCENTAGE OF THE EXPORT

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VALUE OF THE TRANSACTION: ALL PARTICIPANTS CAN ADOPT THIS MEASURE, SAVE THE FRENCH, WHO CLAIM TO BE BOUND BY THEIR BILATERAL PROTOCOL.

B. REQUIRE FULL CASH PAYMENT ON COMING INTO FORCE OF COMMERCIAL CONTRACT: SAME RESPONSE AS IN A.

C. REDUCE INSURED PERCENTAGE OF LOSS ON THE FINANCED PORTION OF THE CONTRACT: ALL COUNTRIES SAVE JAPAN CAN ADOPT MEASURE-BUT EXPRESSED-VIEW (FRG-AND FRANCE YN PARTICULAR) THAT MEASURE COULD MEAN END OF BANK FINANCIAL CREDITS.

D. REDUCE THE PERCENTAGE OF OFFICIAL FINANCING ON THE FINANCED PORTION OF THE CONTRACT: ONLY THE JAPANESE CANNOT, FOR LEGAL REASONS, ADOPT THIS MEASURE (BECAUSE OF PREMIUM REQUIREMENT UNDER THE CONSENSUS, AN INCREASE IN THE PRIVATE FINANCING PORTION WOULD REDUCE THE BLENDED RATE.) THE FRENCH DELEGATION EXPLAINED THAT THEY COULD ACCEPT THIS MEASURE (WITH DIFFICULTY HOWEVER) BECAUSE FRANCE HAS NO OBLIGATION UNDER ITS BILATERAL PROTOCOL WITH RESPECT TO THE BLEND OF OFFICIAL SUPPORT AND BANK FINANCING UNDER THE PROTOCOL NOR ON SPECIFIC INTEREST RATES (THEY EXPLAINED THAT THEIR INTEREST RATE OBLIGATION EXPIRED ON SEPTEMBER 30, 1981).

E. LIMIT MAXIMUM REPAYMENT TERMS ON NEW OFFICIALLY SUPPORTED CREDITS TO A MAXIMUM OF FIVE YEARS: ONLY FRANCE CLAIMS IT CANNOT ACCEPT THIS MEASURE UNDER ITS PROTOCOL ARRANGEMENT.

F. ELIMINATE OFFICIAL LOCAL COST FINANCING OR GUARANTEES FOR LOCAL COST FINANCING: ALL CAN ACCEPT (BUT ONLY JAPAN PRESENTLY SUPPORTS LOCAL COST FINANCING).

G. INCREASE INSURANCE PREMIUMS, GUARANTEE FEES AND/OR COMMITMENT FEES FOR DIRECT CREDITS: ALL COUNTRIES CAN ACCEPT.

H. REDUCE VOLUME OF OFFICIAL COMMITMENTS IN EXCESS OF ONE YEAR: ALL COUNTRIES EXPRESSED EXTREME RESERVATION ON THE QR APPROACH TO CREDIT LIMITATIONS ALTHOUGH ONLY FRENCH INDICATED THEY COULD NOT IMPLEMENT A QR. THE FRENCH QUALIFIED THEIR NEGATIVE RESPONSE, HOWEVER. THEY EXPLAINED THAT UNDER THEIR PROTOCOL, THEY ARE NORMALLY OBLIGED TO FINANCE CONTRACTS SIGNED BY FRENCH ENTERPRISES AS LONG AS THEY COMPLY WITH RULES OF PROTOCOL AND DO NOT VIOLATE COCOM CONTROLS. HOWEVER, THE FRENCH DID INDICATE THAT THE CONTRACT APPROVAL PROCESS IS NOT AUTOMATIC AND THAT IT IS POSSIBLE TO SCRUTINIZE CONTRACTS MORE CLOSELY AND REEXAMINE THE APPROVAL PROCESS. WHILE THE OTHER DELEGATIONS INDICATED THEY COULD TECHNICALLY INSTITUTE QR'S, THE FRG IN PARTICULAR STRESSED ITS OPPOSITION TO SUCH AN APPROACH WHICH INTERFERED WITH FREE MARKET FORCES.

8. BURDENSARING. IN LIGHT OF DISCUSSIONS AT MAY 13 HLM AND PAYE MANDATE, EXPERTS EXPLORED WAYS TO REACH A BURDENSARING FORMULA THAT COULD EQUATE DIFFERENT CREDIT RESTRICTION MEASURES. IT BECAME CLEAR, FOR EXAMPLE, THAT THE FRENCH MIGHT BE ABLE TO REDUCE THE LEVEL OF OFFICIAL,

SUBSIDIZED FINANCING OF A CREDIT TO THE USSR WHILE OTHER COUNTRIES MIGHT BE ABLE TO INCREASE DOWNPAYMENTS AND/OR SHORTEN MATURITIES TO FIVE YEARS. DISCUSSIONS ELICITED FAMILIAR DEBATE BETWEEN FRENCH AND GERMANS ON LOW VERSUS

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HIGH INTEREST RATE COUNTRIES AND NEED FOR INTEREST RATE SUBSIDIES. FRENCH ALSO STRESSED THE IMPORTANCE OF PRIVATE UNGUARANTEED CREDITS (SHORT AND MLT), IN SUPPORTING TRADE WITH THE USSR.

EXDIS

9. DELEGATIONS AGREED TO SUGGEST SEVERAL ILLUSTRATIVE EXAMPLES OF POSSIBLE BURDENSARING FORMULAS FOR THEIR PRINCIPALS TO CONSIDER INCLUDING THE ONE SUGGESTED PARAGRAPH 8. HOWEVER, THE GENERAL GROUP CONSENSUS WAS THAT, HAVING IDENTIFIED CLEARLY THE TECHNICAL FEASIBILITY OF VARIOUS CREDIT RESTRAINT MEASURES, IT WAS UP TO THE POLITICAL LEADERS AT THE MAY 27 MEETING TO DECIDE WHICH MEASURES SHOULD FORM THE BASIS OF FUTURE BURDENSARING NEGOTIATIONS AT THE TECHNICAL LEVEL. WITH THE REQUISITE POLITICAL DIRECTION, IT WAS THE COMMON ASSESSMENT THAT AN APPROPRIATE BURDENSARING ARRANGEMENT COULD BE WORKED OUT TECHNICALLY.

EXDIS

10. MONITORING. ALL DELEGATIONS AGREED THAT MONITORING AND INCREASED INFORMATION EXCHANGE ON CREDITS WAS ESSENTIAL TO ANY BURDENSARING ARRANGEMENT. THE FRENCH DELEGATION EXPRESSED THE VIEW THAT ALL PRIVATE UNGUARANTEED CREDITS AS WELL AS OFFICIAL CREDITS SHOULD BE INCLUDED IN ANY DATA EXCHANGE.

EXDIS

11. ATMOSPHERICS. THE DAY AND A HALF OF NEGOTIATIONS WENT SMOOTHLY WITH BY FAR THE MOST ACTIVE INTERVENTIONS COMING FROM THE GERMAN AND FRENCH DELGATIONS. THOUGH CAST IN THE ROLE OF "HEAVIES" BASED ON THE MAY 14 MEETING, THE FRENCH DELEGATION PLAYED A FAIRLY CONSTRUCTIVE ROLE IN THE DISCUSSIONS AND SHOWED SOME EVIDENCE OF FLEXIBILITY ON THE PROTOCOL. THE GENERAL FEELING AT THE CONCLUSION OF THE MEETING ON MAY 21 WAS THAT SUBSTANTIAL PROGRESS HAD BEEN ACHIEVED IN IDENTIFYING THE CREDIT RESTRAINT OPTIONS ON WHICH LEADERS COULD MAKE A POLITICAL DECISION. ALL PARTICIPANTS VOICED THE OPINION THAT A NEW MEETING OF TECHNICAL EXPERTS WOULD BE NECESSARY, PROBABLY IN THE NEAR FUTURE ON THE HEELS OF THE MAY 27 HLM.

EXDIS

12. IN SEPARATE CONVERSATION WITH THE LEADER OF THE FRENCH DELEGATION, CORNELL STATED THAT FAILURE OF THE FRENCH TO PRODUCE THIS-PROTOCOL WAS SERIOUSLY IRRITATING PARTICIPANTS IN THE CREDIT DISCUSSIONS, NOT ONLY US BUT OTHER PARTICIPANT NATIONS. FRENCH DELEGATE SAID HE WOULD RAISE THIS POINT WITH HIS CHIEFS.

13. COMMENT. THE EXPERTS' REPORT, WITH ITS CLEAR INDICATION OF TECHNICAL FEASIBILITY AND GREEN LIGHT ON THE

BURDENSARING ASPECTS, LAYS THE BASIS FOR THE U. S. ON MAY 27 TO DEMAND A PACKAGE THAT WOULD HAVE THE SUMMIT COUNTRIES OTHER THAN FRANCE INCREASE DOWNPAYMENTS ON USSR CREDITS SHARPLY, ALONG WITH A REDUCTION IN MATURITIES TO 5 YEARS. FRANCE, FOR ITS PART, WOULD STAY AT 8.5 YEARS BUT SHIFT A CHUNK OF ITS FINANCING TO THE BANKS, AT MARKET RATES, THUS RAISING THE COST OF ITS CREDITS TO THE USSR SUBSTANTIALLY. MEANWHILE, ALL PARTIES CAN RELATIVELY EASILY ADOPT A HIKE IN GUARANTEE AND COMMITMENT FEES. WHILE THE GROUP STRESSED AGREEMENT ON TECHNICAL FEASIBILITY DID NOT NECESSARILY IMPLY THAT SUCH A PACKAGE WOULD BE ACCEPTABLE POLITICALLY, THE TONE AND CONTENT OF THE AGREED EXPERTS' REPORT WILL MAKE IT HARDER FOR ANYONE TO SAY "NO" (OR "NON") THAN IT WAS A WEEK AGO. END COMMENT.

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RECEIVED 08 JUN 82 13

TO PRESIDENT

FROM FRASER, J MALCOLM

DOCDATE 02 JUN 82

KEYWORDS: AUSTRALIA

ECONOMICS

HS

SUBJECT: PROPOSALS FOR REDUCING PROTECTION RE ECONOMICS

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France
Summit
(issues)*

ACTION: PREPARE MEMO FOR PRES

DUE: 10 JUN 82 STATUS S FILES

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DATE: 08 JUN 82

MEMORANDUM FOR: STATE SECRETARIAT

DEPARTMENT OF STATE

DOCUMENT DESCRIPTION:

TO: PRESIDENT

SOURCE: FRASER, J MALCOLM

DATE: 02 JUN 82

KEYWORDS: AUSTRALIA

ECONOMICS

HS

SUBJ: PROPOSALS FOR REDUCING PROTECTION RE ECONOMICS

REQUIRED ACTION: FOR INFORMATION

DUE DATE:

COMMENTS:


FOR MICHAEL O WHEELER

STAFF SECRETARY

3987



PRIME MINISTER

CANBERRA

I am writing to let you know of the reactions that we received in Ottawa, Tokyo, London and Seoul to the proposals for reducing protection that I put first to you in Washington on 17 May.

I should note at the outset that I was heartened by your own positive response; and that of other senior members of your administration with whom I spoke.

In Ottawa on 19 May I found, as you said I would, Pierre Trudeau very concerned at Canada's economic situation, and particularly concerned at the impact on the Canadian economy of United States interest and exchange rate policies. In respect of the proposals I outlined to him, he expressed some concern at the implications for some Canadian industries - textiles and footwear in particular - of reductions in levels of protection. I told him that I did not envisage that reductions would have to be of the same percentage amount for every industry; the average reduction would be the important thing.

Subject to his reservations on this point, Pierre indicated he could go along with the Australian proposals in general terms. He welcomed in particular the idea of reducing, across the board, export credits and other export incentives.

I saw Prime Minister Suzuki, accompanied by some of his senior Ministers, in Tokyo on 21 May. He said he shared my analysis of the seriousness of the world situation, and was deeply concerned by the recent trend to protectionism against the background of rising inflation, low growth and serious unemployment. He said that it was vital to strengthen the free trade system, and that it would be an "incalculable loss" if the Versailles Summit did not produce concrete results.

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BY GN NARA DATE 5/6/10

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He rehearsed steps Japan itself had taken and would take, and concluded that the Australian proposals were "very impressive and constructive". He said Japan would consider them very carefully. There might be some problems of implementation to overcome, but he was confident they would advance thinking on the subject.

I should note, in relation to Japanese official attitudes, that they were defensive about some development subsidies; and anxious to make the point that Japan's agricultural subsidies - unlike those of the European Community - were not intended to produce, and were not producing, exportable surpluses.

In regard to non-official attitudes in Japan, I should mention that the leaders of the four major Japanese economic organisations were enthusiastic in their reaction to our ideas; and that subsequent Japanese press comment has been very favourable.

My visit to Seoul, like that of George Bush, was much more a bilateral affair, and Korea is of course not a Summit participant. But it is a leading Newly Industrialising Country and a considerable world trader in its own right, and I thought it worthwhile mentioning what we have in mind. President Chun said he would have our proposals seriously studied.

As well as the visits which I made myself, I have written to Francois Mitterrand, Helmut Schmidt and Margaret Thatcher, and will shortly write to the other Summit participants. Our Foreign Minister, Tony Street, was in London very recently and had a good talk with Margaret Thatcher on 25 May.

She found the logic of our proposals "impeccable", but had clearly given considerable thought to problems of implementation, and of what should be done after the Versailles meeting, at the GATT Council, for instance. Margaret commented that while it was clear that removing barriers to trade would increase prosperity, the problems of how to generate initiative and enterprise in stagnant economies - and capital in the Third World - would still remain. And, she noted, many countries have particular forms of protectionist measures to which in practice they are attached. It would be important to see how each country's measures in fact line up, particularly under present conditions with governments so much involved in international trade. Our proposals should not come to be regarded as another superficial or pious exercise.

As you will have seen the discussions we have had with interested governments have yielded plenty of food for thought. In addition to these direct government-to-government discussions I have reported, we have noted with interest the positive response to our proposals by Emile Van Lennep, Secretary-General of the OECD; and remarks by President Clausen of the World Bank which run almost exactly parallel to our own thinking.

I hope therefore that our ideas may be of some use to you in the coming meeting. While I am sure that ours is not the only possible prescription I think that it makes sense, would be constructive and, at least in the light of the reactions we have received, could prove to be the economic stimulus for which Summit participants are searching.

I wish you luck for Versailles, for the Bonn meeting as well, and in the other burdens you carry daily with such courage and good humour

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The Honourable Ronald Reagan,
 President of the United States,
WASHINGTON D.C.,
 UNITED STATES OF AMERICA