Collection: Executive Secretariat, NSC: Meeting File
Folder Title: NSC 00054 07/16/1982 [U.S./EC Economic Relations] (1 of 3)

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name EXECUTIVE SECRETARIAT, NSC: MEETING FILE

File Folder NSC0054 7/16/1982 (1)

Box Number 4

Withdrawer
CAS 1/5/2011

FOIA
M10-325/2
RAKU

ID Doc Type	Document Description	No of Pages	Doc Date	Restrictions
102579 MINUTES	RE 7/16/82 NSC MEETING *R 9/26/2013 M325/2*	5	7/16/1982	B1
102580 MEMO	WILLIAM CLARK TO THE PRESIDENT RE NSC MEETING *R 9/26/2013 M325/2*	2	7/15/1982	B1
102581 PAPER	RE OPTIONS ON STYLE AND APPROACH (ATTACHMENT TO 102580) *R 9/26/2013 M325/2*	2	7/16/1982	B1
102582 PAPER	RE OPTIONS ON SPECIFIC ISSUES *R 9/26/2013 M325/2*	1	ND	B1
102583 PAPER	RE OPTIONS ON STEEL *R 9/26/2013 M325/2*	1	ND	B1
102584 PAPER	RE OPTIONS ON AGRICULTURE *R 9/26/2013 M325/2*	1	ND	B1
102585 PAPER	RE OPTIONS ON US-SOVIET GRAINS AGREEMENT (LTA) *R 9/26/2013 M325/2*	1	ND	B1
102586 PAPER	RE OTHER EAST-WEST ISSUES - CREDITS AND COCOM *R 9/26/2013 M325/2*	1	ND	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.

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name EXECUTIVE SECRETARIAT, NSC: MEETING FILE

Withdrawer
CAS 1/5/2011

File Folder NSC0054 7/16/1982 (1)

FOIA
M10-325/2
RAKU
I

Box Number 4

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
102587	PAPER	RE STEEL TRADE *R 9/26/2013 M325/2*	3	ND	B1
102588	PAPER	RE AGRICULTURE *R 9/26/2013 M325/2*	4	ND	B1
102589	PAPER	RE US-USSR GRAIN AGREEEMENT *R 9/26/2013 M325/2*	3	ND	B1
102590	PAPER	RE EXTENSION OF 12/29/81 SANCTIONS *R 9/26/2013 M325/2*	4	ND	B1
102591	PAPER	RE POLAND AND ECONOMIC SANCTIONS *R 9/26/2013 M325/2*	4	ND	B1
102594	HANDWRITTEN NOTES		1	ND	B1 B6
102595	TALKING POINTS	FOR NSC MEETING (2 COPIES OF P. 1 - ANNOTATED AND UNANNOTATED) *R 1/29/2013 M325/2*	4	7/16/1982	B1
102592	MEMO	WILLIAM CLARK TO ACTING SECRETARY OF STATE RE CONSULTATIONS WITH OUR ALLIES ON POLAND *R 9/26/2013 M325/2*	2	7/16/1982	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)(B) 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.

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name	EXECUTIVE SECRETARIAT, NSC: MEETING FILE	***Withdrawer***	
		CAS	1/5/2011
File Folder	NSC0054 7/16/1982 (1)	***FOIA***	
		M10-325/2	
Box Number	4	RAKU	
		1	

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
102593	HANDWRITTEN NOTES	RE NSC MEETING MINUTES *R 9/26/2013 M325/2*	4	7/16/1982	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.

NATIONAL SECURITY COUNCIL MEETING:

DATE/TIME/PLACE:	SUBJECT:	PARTICIPANTS:
7/16/82 11:00-12:30 Cabinet Room	US-EC Economic Relations	The President The Vice President Admiral Daniel J. Murphy State: Sec George P. Shultz Treasury: Sec Donald T. Regan Mr. Marc E. Leland OSD: Sec Caspar W. Weinberger Under Sec Fred C. Ikle Justice: Attny Gen Wm Frency Smith Agriculture: Sec John R. Block Commerce: Sec Malcolm Baldrige Mr. Leionel Olmer Energy: Dep Sec W. Kenneth Davis OMB: Mr. Joe Wright CIA: Mr. William J. Casey USUN: Amb Jeane J. Kirkpatrick USTR: Amb William E. Brock CEA: Mr. William Niskanen White House: Mr. Edwin Meese III Mr. James A. Baker III Mr. Michael K. Deaver Judge William P. Clark Mr. Robert C. McFarlane Admiral John M. Poindexter Mr. Richard G.Darman Mr. Craig L. Fuller JCS: General John W. Vessey, Jr. OPD: Mr. Ed Harper NSC: Col Michael O. Wheeler Mr. Norman Bailey Mr. Henry Nau

CONFIDENTIAL

NSC 00054

National Security Council
The White House

282

Package # 90560

CHRON FILE

82 JUL 29 A 9: 37

	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter			
Bud McFarlane			
Jacque Hill			
Judge Clark			
John Poindexter	1	JP	
Staff Secretary	2	MW	R
Sit Room			

I–Information A–Action R–Retain D–Dispatch N–No further Action

DISTRIBUTION

cc: VP Meese Baker Deaver Other

COMMENTS

SECRET

SYSTEM II
90560

MEMORANDUM

NATIONAL SECURITY COUNCIL

SECRET

INFORMATION

July 26, 1982

MEMORANDUM FOR WILLIAM P. CLARK

FROM: HENRY R. NAU HRN

SUBJECT: Minutes of the NSC Meeting
July 16, 1982 -- 11:00 A.M., Cabinet Room

Attached are the minutes of the NSC Meeting on July 16, 1982 concerning U.S.-EC Economic Relations.

Norm Bailey has seen and commented.

Attachment

Tab A - Minutes

cc: Michael Wheeler

SECRET
Review on 7/26/1988

DECLASSIFIED
Sec.3.4(b), E.O. 12958, as amended
White House Guidelines, Sept. 11,
BY NARA CN, DATE

SECRET

SECRET

SYSTEM II
90560

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

SECRET

NATIONAL SECURITY COUNCIL MEETING

DATE, TIME AND PLACE: July 16, 1982 -- 11:00 a.m.
Cabinet Room

SUBJECT: U.S.-EC Economic Relations

PARTICIPANTS:

The President
The Vice President

State
Secretary George P. Shultz

OSD
Secretary Caspar W. Weinberger
Under Secretary Fred C. Ikle

Treasury
Secretary Donald T. Regan
Mr. Marc E. Leland

Justice
Attorney General William French Smith

Agriculture
Secretary John R. Block

Commerce
Secretary Malcolm Baldrige
Mr. Lionel Olmer

Energy
Deputy Secretary W. Kenneth Davis

OMB
Mr. Joe Wright

CIA
Mr. William J. Casey

USUN
Ambassador Jeane J. Kirk

USTR
Ambassador William E. Brock

CEA
Mr. William Niskanen

JCS
General John W. Vessey, Jr.

OPD
Mr. Ed Harper

White House
Mr. Edwin Meese III
Mr. James A. Baker III
Mr. Michael K. Deaver
Judge William P. Clark
Mr. Robert C. McFarlane
Admiral John M. Poindexter
Mr. Richard G. Darman
Mr. Craig L. Fuller

NSC
Colonel Michael O. Wheeler
Mr. Norman Bailey
Mr. Henry Nau

SECRET
Review on 7/26/1988

SECRET

DECLASSIFIED
Sec.3.4(b), E.O. 12958, as amended
White House Guidelines, Sept. 11, 2006

102579

MINUTES

NSC Meeting, July 16, 1982

11:00 a.m.

Clark opened the discussion by recalling the sequence of events after the sanctions decision of June 18 concerning our response to European criticisms of recent U.S. policies. Bill Brock returned from Europe on June 24, relaying a message of strong opposition to the sanctions decision and a feeling in Europe that the cumulation of problems in steel, agriculture and other sectors represented a U.S. strategy to punish Europe. There was discussion of creating a U.S. task force and sending a special U.S. team to Europe. This led to suggestions for a new, permanent interagency group for international economic policy, but there were some questions about who would chair this new body. In the interim, some interagency meetings have been held to prepare initial papers on overall and specific issues. A draft NSDD has been circulated to create a new SIG to develop these issues further. Secretaries Shultz and Regan agreed last night that Don Regan would chair this group. Given that background, Mr. President, we have three broad issues to be examined:

-- Is there any reason to alter the basic approach and premises of our economic policy toward Europe?

-- What should be the general character of our approach to current European concerns? Do we take a high level approach or work the issues through regular channels?

-- What flexibility do we have in dealing with specific issues? Can we find areas where mutual concessions would product some agreements in the short run?

Let me now turn to Don Regan to begin the discussion. I will only add that this meeting, Mr. President, is not intended to reach any decisions, but rather to frame the issues for your consideration.

Regan pointed out that there had been no one central body or theme to U.S. foreign economic policy. We need to make a better effort to examine the impact of one problem on another. The overall impact of these economic issues on our foreign policy is particularly critical.

Shultz said he was looking forward to working under Regan's leadership. He was happy as long as he got his oar in.

Clark indicated that the next items on the agenda involved specific issues and asked Baldrige to discuss the steel issue.

Baldrige (with charts) began by noting that the steel problem was a case of one sick industry trying to feed on another sick industry. U. S. capacity utilization in steel was down to 43%, heading for 40%. At least 60% capacity utilization was needed to break even. The state of return in this industry plunged in the 4th Quarter 1981. Employment in both the US and Europe has dropped rapidly. Imports from the EC exacerbated the problem in the US. These imports jumped sharply in mid-1981, just as the US industry was beginning to slump. The EC accomplished this through heavy subsidies. We have now ruled preliminarily on the existence and magnitude of these subsidies. If the ITC finds injury and countervailing duties are applied, imports from the UK, Belgium, France and Italy will be knocked out completely. We do not want this and are trying to find an alternative solution within the limits of US law. We first had to convince the Europeans that we would file cases. Past US administrations talked the industry out of filing cases and devised a trigger price mechanism which basically disguised the problem. Now this problem is behind us. After recent discussions, there may be a light at the end of the tunnel. I would say the chances are now 50-50, perhaps a little better, that we will find a negotiated solution. We will need a little help from Commerce on customs and Justice on anti-trust aspects.

President asked if we could produce enough steel to meet our own needs.

Baldrige answered no, we would have to import some specialty steels but we would be self-sufficient in basic steels. The steel industry made serious mistakes in years past but is now trying to get itself together.

Brock argued that we cannot criticize European subsidies as if we aren't sinners ourselves. Steel has become a protected industry and protected industries inevitably become more and more inefficient.

Regan noted that the problem was even broader. Many newly industrializing countries -- Brazil, Mexico, S. Korea -- had become competitive steel exporters, often on the basis of subsidies.

Baldrige agreed, pointing out that with lower tariffs and with invisible barriers at the border now being negotiated and hopefully reduced, our biggest single future problem would be subsidies. Our own steel firms were fat and inefficient but have started in recent years to correct this situation.

Clark asked Block to address the next agenda item on agriculture.

Block noted that the EC had gone from import dependence in agricultural products beyond self-sufficiency to the second largest agricultural exporter in the world. Again, they had done so on the basis of subsidies. They have taken poultry markets away from us in the Middle East, wheat markets in Chile where they now sell wheat flour while we used to export wheat which was milled into flour in Chile, and sugar markets around the world. What they need to do is bring their support prices down nearer to the levels of world prices. Instead they decided this year to increase their support prices by 10½%. By the end of the year, we expect them to be the largest agricultural exporters in the world, mostly processed commodities. We have been talking to them about the problem but we may have to start acting. We may have to target some of the markets they have stolen from us and win them back.

Clark asked Brock to address GATT issues.

Brock pointed out that the steel and agricultural issues taken together created real difficulties and threatened to undermine US objectives for the GATT Ministerial in November. We need to get a settlement on steel and quiet things down on agriculture. Then we still have a chance for a successful Ministerial, which may be the most critical meeting on the world trading system in the postwar period.

Shultz asked rhetorically if there were not some differences within Europe on the Common Agricultural Policy. Wasn't this largely a French interest and the basis on which France joined the original Common Market?

Block said yes, we must capitalize on these differences. We are working with non-EC countries to isolate the EC on agricultural issues.

Clark mentioned the issue of the grain agreement, noting that the President would have to make a decision on this issue sooner rather than later. He suggested that the participants come back to this issue after reviewing the sanctions question. On sanctions Clark reviewed events in the wake of the Polish crisis in December 1981. At that time the working group noted the economic and legal difficulties with extraterritorial application of the sanctions. Haig reported from his meetings with Gromyko in January that the Soviets had indicated a thaw in the situation in Poland by the summer. With this background, the President decided to defer the decision on extraterritorial application of the sanctions. Thereafter, nothing changed in Poland. In the preparations for Versailles, Buckley sought to persuade the Allies to take steps to restrict credits going to the Soviet Union. Mr. President, you came back from Versailles and made your decision. This was a matter of protecting human rights in Poland. Perhaps we failed to explain your rationale as well as we should have. Confusion developed in Europe where it was seen as a shot in a trade war with the Soviets. The Allies forgot what you had said in December and in Bonn in June when you urged them to go quietly to their counterparts in Eastern Europe and Moscow and press for some meaningful relaxation in Poland. Now the sanctions decision has cast a shadow over other issues. You will be sending a memo to the State Department, Mr. President, clarifying our position for the Allies. It may be late, but not too late to explain our position. Some feel that events on July 22 may produce movement away from oppression. This could become an occasion to review the sanctions.

Brock asked if we had had a discussion of what would constitute meaningful relaxation.

President noted that he had indicated in Bonn what would be necessary. The Polish government should resume discussions with Solidarity and release Walesa. He pointed out to the Allies that they were in a better position than the US to convey this message quietly to the Soviet Union, not facing the Soviet Union down in public, which would never work, but explaining to them frankly Western purposes. He said he could not avoid the feeling that the Soviets might, given their present difficulties, take this opportunity to perform some deeds, not just talk, that would improve our relations. We could then show them a better way, a better world to live in.

Regan asked how tightly we plan to apply the sanctions.

Baldrige answered as tightly as possible.

Olmer added that the 60-day period for appeal of the new regulations expired mid-August. We would then be faced with questions of what to do if sanctions are violated. We are looking at the companies involved and their relationships to the US. We could, if we wanted to, prohibit any exports from the US to these companies.

Regan noted that the heat on this issue will then go up in the next few weeks rather than down. We have here an ongoing festering problem.

Baldrige pointed out that at that point we could go back to December 29 and allow them to ship what they already had as of that date, if the situation in Poland merited it.

President asked if Baldrige meant allowing them to ship what they already had in Europe.

Baldrige said yes.

Clark said that this general question of how we manage the sanctions should be the subject of work by the new interagency group. He then turned the discussion to the grain agreement.

Block noted the loss of markets to US farmers as a result of the 1980-81 grain embargo.

Clark asked what the options were.

Block said one was a new agreement with higher limits, but he was ready to concede that they may not be possible under present circumstances. He did feel, however, that the next possibility was an extension of the agreement for one year with higher limits and then perhaps a renegotiation of a new agreement next year if possible.

Shultz said there must be an element of consistency here with the sanctions. To negotiate a new agreement would be inconsistent. Nevertheless, we need a framework for trade with the Soviets. Perhaps an extension or some new limits. We can't have the

Soviets burn us again. Their disruptive behavior in the market was one of the original reasons for the agreement. We can't let that happen again. Each of these actions has long-term implications. The worst decision I think we made the last time I was in government was to put export controls on soybeans. Extraterritoriality scares the business community, not because of immediate loss of sales but because it tells foreign companies to go elsewhere to find their business partners. We are faced here with long-term issues. The problem in steel, for example, is that supply capacity has been built up at the same time that demand has gone down. Capacity building is simply out of line with long-term market trends.

Brock added that the grain agreement was the single most important and sensitive issue in the farm community. We should be very careful not to say anything until we decide what we want to do.

President said he did not want to make a decision now but he had never tied this issue to Poland. It was not part of the sanctions.

Weinberger pointed out that the extension of the agreement would be inconsistent with the pipeline decision. The best solution would be no agreement. Let them buy what they want but don't sanctify it with an agreement.

Kirkpatrick noted that Latin American countries also have problems with EC policies in the agricultural area. We should ask our friends to cooperate on grain trade in the pursuit of human rights.

Shultz noted that if we could ever get an agreement with others to raise the price or curb the sale of grain, it would work.

Weinberger called it a "cartel for human rights."

Regan said he disagreed with Weinberger that we did not need an agreement. The Soviets ruined our market once. We must have an agreement.

Weinberger said they ruined our market once because we were not watching. We can keep closer watch and improve our information about Soviet market behavior without an agreement.

Brock said no, we can't, because we have no legal basis.

Clark closed the meeting by calling on Regan to sum up.

Regan noted that we would now be looking at the relationship of these issues to one another and would be coming back to the President with an overview.

SC/S PROFILE ~~SECRET~~ ID 8290524

RECEIVED 16 JUL 82 18

TO CLARK FROM NAU DOCDATE 15 JUL 82

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE(S)

CIJ 1/5/11

KEYWORDS: EAST WEST ECONOMICS EC

POLAND AGENDA

NSC

SUBJECT: AGENDA & BRIEFING BOOKS FOR 16 JULY NSC MEETING

ACTION: FWD TO PRES FOR INFO DUE: STATUS C FILES IF M

FOR ACTION	FOR CONCURRENCE	FOR INFO
CLARK		

COMMENTS

REF# LOG 8290516 NSCIFID NSC00054 (B / B)

CTION OFFICER (S)	ASSIGNED	ACTION REQUIRED	DUE	COPIES TO

ISPATCH W/ATTCH FILE (C)

CLASSIFIED

II-90524

The President has seen____

THE WHITE HOUSE

NATIONAL SECURITY COUNCIL MEETING

11:00 A.M.

Friday, July 16, 1982

THE PRESIDENT

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE(S)

CW 1/5/11

CLASSIFIED

The President has seen____

SYSTEM II
90524

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

July 15, 1982

~~SECRET~~

DECLASSIFIED

NLRR M325/2 #102580

BY KML NARA DATE 9/26/13

MEMORANDUM FOR THE PRESIDENT

FROM: WILLIAM P. CLARK WPC

SUBJECT: NSC Meeting, July 16, 11 A.M.

ISSUE

The continuing economic recession and political events in Poland affecting East-West economic relations have combined to intensify economic and trade disputes between the U.S. and its allies. How do you wish to respond to current problems in U.S.-allied economic relations?

FACTS

At Ottawa, Cancun and Versailles, you adopted a long-term, patient approach to U.S. and worldwide economic difficulties, stressing fundamental problems and solutions, rather than quick fixes. At the same time, the recession and political events in Poland have exacerbated short-term economic and trade tensions among the allies. Your decision on June 18 to extend sanctions on oil and gas equipment and technology extraterritorially has now combined with other ongoing issues in agriculture, steel and other sectors, to produce a sense of confrontation and in some quarters crisis in U.S.-allied economic relations.

DISCUSSION

In deciding how to respond to this situation, you need to consider our overall strategy or approach, as well as our maneuvering room or leverage on specific issues. The discussion paper at Tab A outlines some of the broad choices, and the status papers at Tab B develop information on selected specific issues. The bureaucracy resists a discussion and development of options that threaten to offer less than the maximum benefits to their particular constituents or that threaten to establish priorities across issues. (This is one reason the discussion paper is rather thin on options dealing with specific issues.) Nevertheless, we also require an overall approach to our relations that meets our broader foreign economic policy interests, as well as our central political and security interests in relations with the allies. This NSC meeting is intended to help you develop this approach to overall as well as specific issues. You are not being asked to make decisions at this meeting.

~~SECRET~~
Review on 7/15/1988

~~SECRET~~

RECOMMENDATION

That you review the attached discussion paper for the NSC meeting, July 16, 11 A.M.

Approve ________ Disapprove ________

Attachments

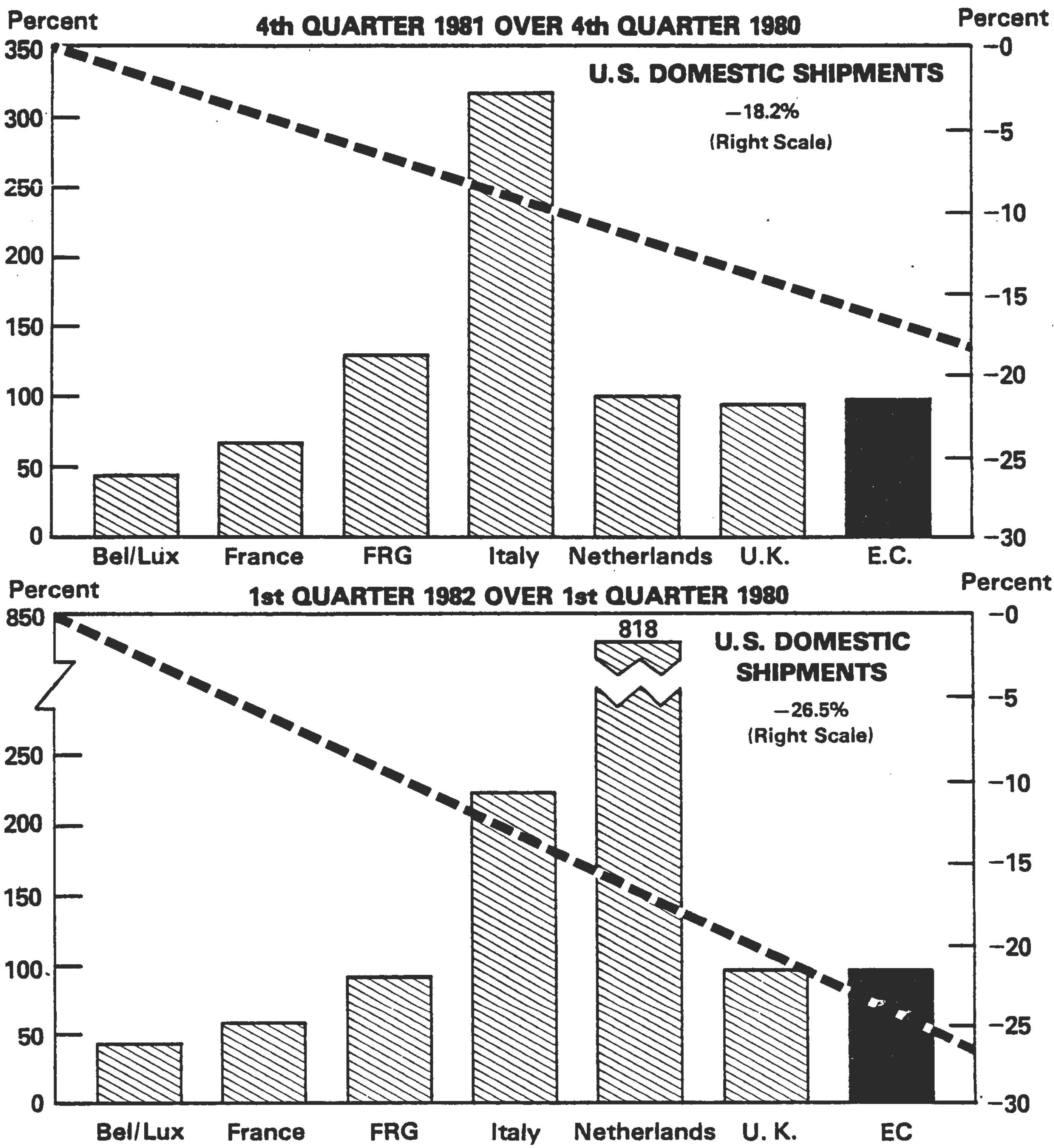
Tab A Discussion Paper for NSC Meeting
Tab B Status Papers on Selected Specific Issues — AVAILABLE IN SITROOM.

NSC Meeting, July 16, 1982
11 a.m.

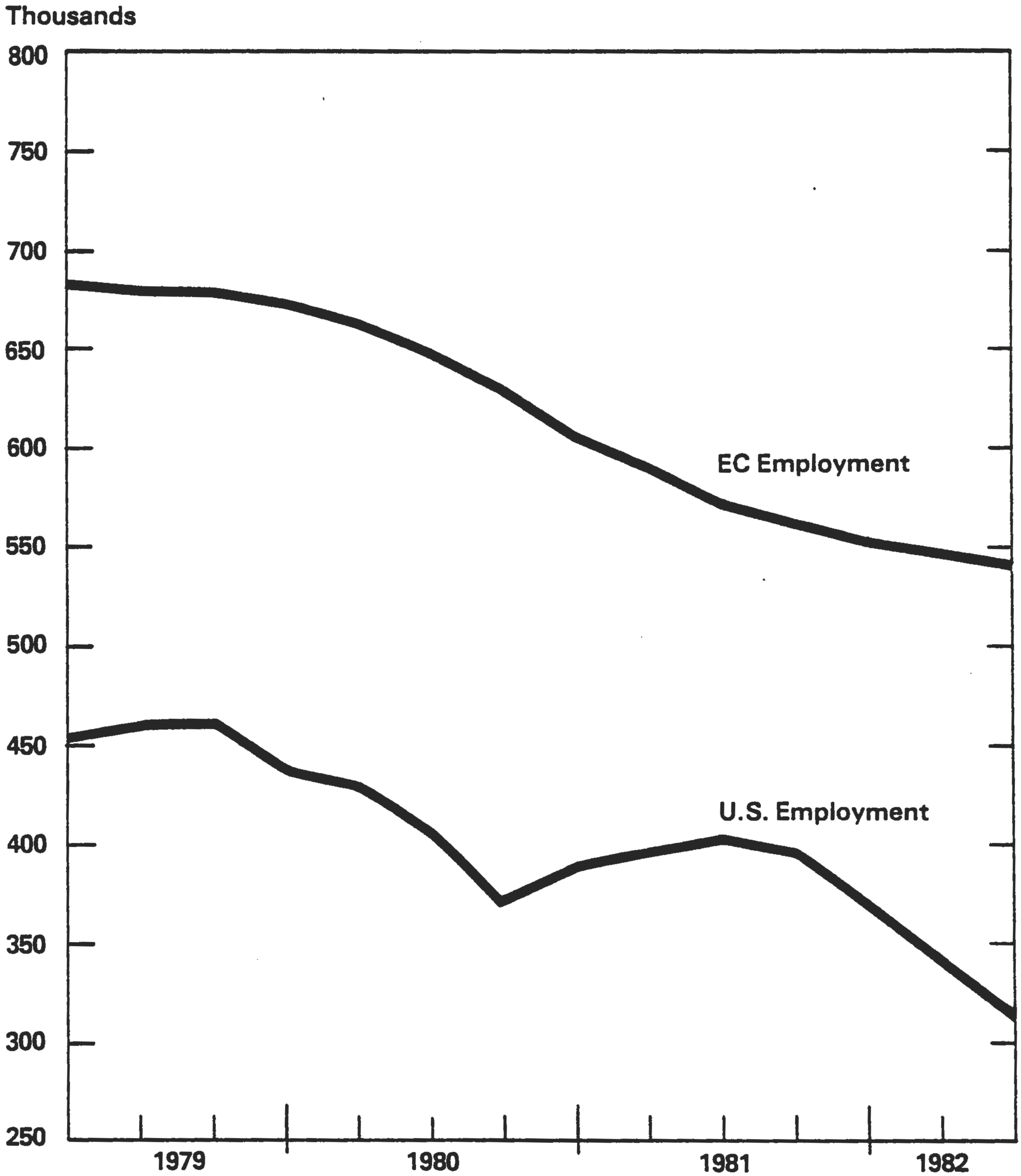
Agenda

1.	Introduction	Clark
2.	Discussion of Broad Strategy and Approach to US-EC Economic Relations	Shultz/Regan
3.	Review of Specific Issues	
	a. Steel	Baldrige
	b. Agriculture	Block
	c. GATT	Brock
	d. Grain Agreement	Shultz/Block
	e. Sanctions	Clark
4.	Conclusion	Clark

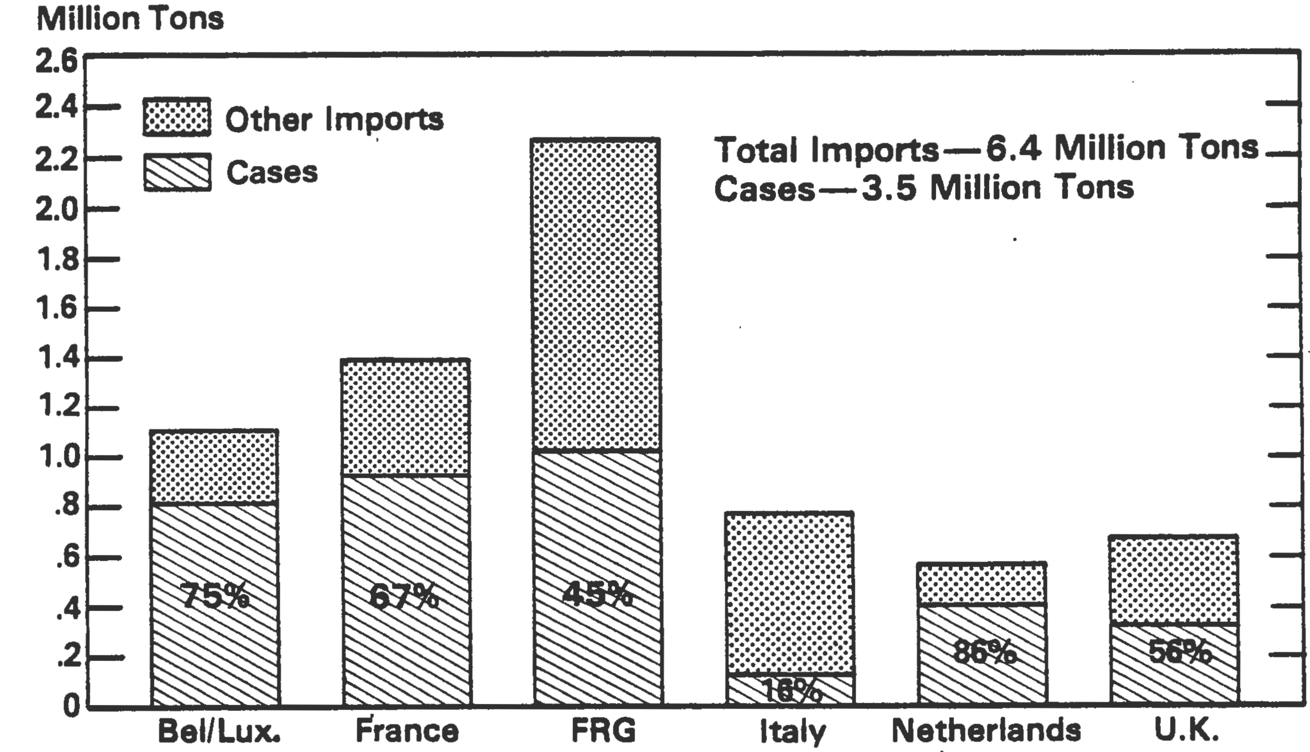
Percent Increases in EC Steel Exports to the U.S. Compared with Change in U.S. Domestic Shipments

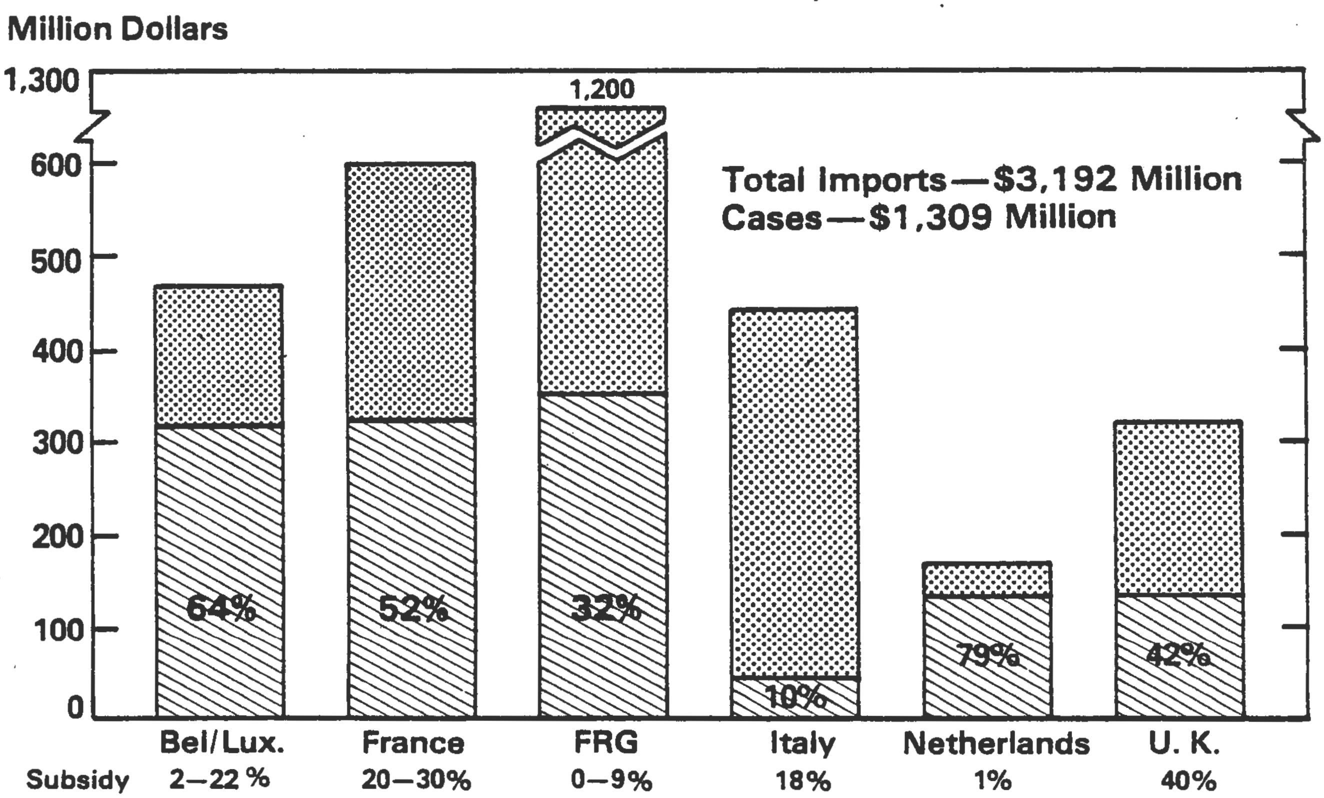


U.S. and EC Steel Industry Employment



Total Steel Imports from EC and Imports Covered by Cases — 1981





Sample EC Steel Subsidies

- Grants
- Low Interest Loans
- Deferral of Principal Repayment on Loans
- Equity Infusions by Governments
- R & D Grants and Loans

102581

Discussion Paper for NSC Meeting, July 16, 1982

OPTIONS ON STYLE AND APPROACH

In managing current issues with its European Allies, there are a number of ways in which the United States could respond to European concerns:

1. A visible, high-level response beginning a "new dialogue."

   This option could involve a variety of new steps, such as sending a Cabinet-level delegation to Europe or inviting the EC COuncil President to visit President Reagan, to demonstrate special sensitivity to European concerns. Such steps could be undertaken to negotiate specific issues or to reinforce existing negotiations within regular channels. This approach will inevitably raise some expectations of high-level compromises on the oustanding issues.

2. Address key issues through existing channels with greater intensity and commitment.

   This option precludes any special steps outside existing channels and ongoing negotiations but implies a commitment to pursue existing negotiations with greater vigor and willingness to achieve compromises on individual issues based on mutual concessions.

3. Some combination of one and two above.

   This option involves special high-level steps including the designation of a Cabinet-level official or officials to carry on intensified negotiations with the Europeans, combined with enhanced commitments to pursue solutions to other issues in existing channels. This appraoch also implies a U.S. willingness to compromise.

4. Pursue business-as-usual in US-European economic relations.

   This option involves focusing on already scheduled events and negotiations in US-EC relations and pursuing these activities in line with recent levels of emphasis (i.e., pre-Summit and since). No special high-level activities would be considered. This approach implies that the US intends to hold its positions on the issues, and use existing machinery to keep pushing our points.

OPTIONS ON SPECIFIC ISSUES

Whatever approach the United States chooses, it is essential to consider beforehand how we intend to proceed on specific issues. Otherwise, we risk raising expectations through high-level contacts which cannot be met through negotitions on specific issues.

The issue papers attached to this discussion paper outline the present status of various issues in US-European relations. As the overview paper suggests, the issues divide generally into three categories:

1 Issues such as East-West trade, sanctions, export credits and economic and monetary policy coordination, where there is general agreement that US policy is developing in the right direction and should emphasize the broad policy rationale these initiatives, addressing specific issues such as sanctions or high interest rates in the context of overall US and Western security and economic policy objectives.

2. Other individual issues such as steel, agriculture, textiles and various domestic actions that would benefit the allies, where the United States may have some flexibility, in timing or style if not in substance, and can seek to develop maneuvering room fully aware of the legal and other limits and the desire not to raise expectiations which cannot be fulfilled.

3. Long-term issues such as US policy toward the GATT Ministerial or the IMF and multilateral development banks, where US leadership and continuity of policy are too important to alter for short-term objectives.

Below, some alternatives are outlined to initiate thinking and discussion about US options in specific areas, particularly in the second category of issues above.

OPTIONS ON STEEL

Any solution to the steel problem as required by the statute must relieve injury to the US industry caused by subsidized or dumped EC steel imports. The US industry can block any settlement which does not meet this condition.

1. EC-wide settlement. Secretary Baldrige continues his current intensive effort to settle the steel cases through negotiations with European Commission officials.

2. Country-by-country settlement on products subject to pending cases. If EC-wide settlement appears impossible, individual countries may seek separate settlements in pending cases. Any such country/product specific settlement acceptable to the foreign country probably would not meet the statutory requirement of relieving injury to the US industry.

3. Completion of pending cases. If neither EC-wide settlement nor country-wide settlement is possible, the Department of Commerce has no choice under the statute but to continue the cases to their conclusion. This will, no doubt, result in the exclusion of major steel imports from France, Belgium, Italy, and the United Kingdom.

OPTIONS ON AGRICULTURE

1. Continue to press vigorously on current agreed stragegy.

2. Soften the current approach.

   -- Limit debate to government-to-government dealings, i.e., remove debate from public domain;

   -- Extend time period for review of 301 petitions.

3. Strengthen the current approach.

   -- Establish a limited export credit subsidy program;

   -- Establish a limited direct export subsidy program designed for particular market and particular commodity such as poultry in the Middle East.

OPTIONS ON US-SOVIET GRAINS AGREEMENT (LTA)

1. Do nothing, allow LTA to lapse.
2. Extend the LTA for one year on its present terms;
3. Explore the possibility of negotiating a new LTA with different terms.

OTHER EAST-WEST ISSUES - CREDITS AND COCOM

Credits

1. Continue our pre-summit efforts to persuade Allies to restrain credits to the USSR:

2. Concentrate in the short term on exchanging information on credits; move in a few months to a monitoring mechanism and only later to another try at actual controls.

3. Drop attempt at restraining credit.

COCOM

1. Continue our efforts to tighten COCOM controls and improve enforcememt

10587

STEEL TRADE TENSIONS BETWEEN THE U.S. AND THE EUROPEAN COMMUNITIES

ISSUE

U.S. unfair trade statutes require the imposition of special duties on imports benefitting from subsidies or dumping (sales below fair value) and causing injury to a U.S. industry. On June 10, the Commerce Department issued a preliminary determination that certain major steel producers in France, Belgium, Italy, and the U.K. receive subsidies ranging from 18-40% of the value of production.

Imposition of the duties, which would equal the level of subsidization, would effectively exclude those producers from important sectors of the U.S. market. At the same time, the Commerce Department found that major producers in West Germany and the Netherlands do not receive significant subsidies. While those producers (and their governments) are pleased at our preliminary determinations, they fear that their own markets could be severely disrupted by steel coming from the countries effectively excluded from the U.S. market. The importance of the steel industries in the countries named means that the European Communities (EC) must consider the U.S. action as a major trade irritation, even though the existence of the subsidies was widely acknowledged, and the U.S. action is both required by our law and clearly permitted by the GATT international agreement allowing countervailing duties.

At the same time, failure by the Administration to enforce our statutes and our rights under the GATT agreements could lead to domestic pressures for extreme protectionist measures by the U.S.

In accordance with Administration policy, Secretary Baldrige left for Europe on July 7 to resume intensive efforts to find a solution acceptable to all sides that will enable us to settle these cases prior to October 8, (the date by which, under the statute, final determinations in the subsidy cases must be made by the International Trade Commission). Preliminary determinations are due August 9 in dumping cases covering the same EC countries and products. These determinations may heighten the existing tensions. Any settlement must relieve the U.S. industry of injury caused by the subsidized or dumped imports, while still providing a trade regime that will not totally eliminate major segments of U.S.-EC trade in steel.

BACKGROUND

The world steel industry has been in crisis since 1975 as a result of growing structural imbalance between supply and demand as well as recurrent cyclical downturns. The industry in many EC countries has adjusted poorly, relying on increasing government financial assistance rather than closing excess inefficient capacity and reducing its excess labor force. The West German steel makers' trade association estimates that $30-35 billion has been spent or is already committed by governments of other EC countries for steel for the period 1975-83. In the last two months alone, the French Government has proposed about $4 billion in additional subsidies, leaving the Dutch and German steelmakers to seek help from their governments in order to modernize and stay competitive with their heavily subsidized neighbors.

The current recession in Western Europe has hit steel quite hard, with production levels down 3.9% in May 1982 from last year's low level, and capacity utilization down to below 65%, while imports (i.e., from outside of the EC) now take 10% of the market (up from 7% in 1981).

The EC approach to the current steel crisis has been to raise internal prices through coordinated cutbacks in production. For the third quarter of this year, production is scheduled to be reduced by 40%, while steel industry employment has continued to decline and alternative employment is scarce at a time of extremely high unemployment for Europe (over 9%). As a result, continued steel subsidization has become a political necessity for several governments, either out of desperation (Belgium), as part of national economic programs (France and Italy), or to keep a nationalized steel company going while reducing it down to a rational size (Great Britain). Nevertheless, the EC member states recognize the need to eliminate obsolete and excess capacity, and to create an industry that can compete without government assistance. The EC as a whole is committed to a State Aids Code in steel designed to eliminate both excess capacity and subsidization by the end of 1985.

While exports from the countries likely to be excluded by the cases only amount to about 2% of those countries' steel shipments, the loss or redirection to internal markets in the EC of this production would exacerbate steel-related economic and political difficulties, especially in Belgium and France.

The U.S. industry has adjusted somewhat better than the European industry, by closing obsolete plants, reducing its labor force, and investing in modern equipment when funds are available. High import levels can harm the U.S. industry, not only by depriving it of sales, but also because the low price levels caused in part by imports have prevented the industry from obtaining the capital (either through retained earnings, or outside financing) necessary for modernization. Since November 1980, the U.S. steel industry, relying on the Administration's economic recovery program has announced $6.6 billion in new capital investment, but in recent months a number of those projects have been put on "hold" as a result of declining demand, low prices, and high levels of imports.

The U.S. industry's capacity utilization, which averaged 77.7% in 1981, dropped below 50% by May 15 of this year, and has not gone above 50% since. Many of the major steel producers will lose significant sums of money this year, and one is reported to be approaching bankruptcy. Over 135,000 steel workers are laid off or on short-time (31% of the industry). Imports have reached 24% of consumption. While imports are not the sole problem for the industry, failure to address the trade problem vigorously would have serious political consequences for the Administration.

The U.S. industry in 1977 and in 1980 sought to have the U.S. government enforce the unfair trade laws. The U.S. government, wishing to avoid a dispute with the Europeans, sought to buy time for the Europeans to move their industry on to a sound commercial footing so that the EC industry might compete internationally without dumping or subsidization. Both times, the Carter Administration persuaded the U.S. industry to withdraw its complaints, first by establishing the trigger price mechanism (TPM) in 1977, and then by strengthening TPM in 1980, to run for five years. The maintenance of the TPM through 1985 was intended to protect certain European producers from countervailing duty (and possibly antidumping) complaints. Nevertheless, some of the European producers openly (or through evasion) undercut the trigger prices in 1981 and rapidly expanded their sales while the demand in the U.S. market declined substantially. Because the European producers violated the TPM, the American industry now doubts the good faith and reliability both of the European producers and the EC Commission. They will insist that any settlement guarantee that they not be deceived again.

102588

AGRICULTURE

ISSUE

EC agricultural policies represent the single greatest distortion of world agricultural trade. Efforts by the United States and other principal agricultural trading countries to moderate the negative impact of EC policies have been unsuccessful. The EC has continued unwarranted increases in its intervention in support of its farmers. Although the direct cost of the price supports have been borne by EC taxpayers, U.S. farmers have paid the indirect costs through lost export sales and lower world prices; U.S. taxpayers have paid through higher cost farm programs.

The farm community believes that a more competitive footing for U.S. exports must be established either through direct U.S. Government assistance or by eliminating the unfair advantages provided by the EC to its producers. In the last year, the United States has introduced a series of complaints to the General Agreement on Tariffs and Trade (GATT) on separate EC practices.

The EC has maintained that the U.S. actions are an attack on the CAP and a threat to its sovereignty. The EC points to the U.S. bilateral trade surplus with the EC in agriculture as an indication of the openness of the EC market. (In the past, the United States was able to obtain several key agricultural concessions from the EC including duty-free entry for soybeans and certain feed grains.) It points to distortions caused by U.S. agricultural policies such as our marketing orders for fruits and vegetables, our price supports and our import quotas, particularly on dairy and sugar.

Because the GATT rules on agricultural subsidies are ineffective, the U.S. Government may lose some of its GATT cases against the EC. At the November 23-26 GATT Ministerial, the Government intends to seek a commitment to tougher rules on agricultural subsidies. The EC realizes that it will be the target of these rules and is wary of the commitment.

BACKGROUND

The CAP has enabled the EC not only to achieve self-sufficiency in many commodities but also to produce surpluses which can only be disposed of by government-subsidized sales to third countries. Inside the EC, the CAP is viewed as a success. It has protected farm income and helped the EC to achieve self-sufficiency in many products. Outside the EC, however, the effects of EC policies are looked upon as a major distortion of normal competitive trade development, both in the EC market and in third-country markets.

The United States and other major agricultural countries have, for the most part, refrained from defending their interests too forcefully, in the interest of preserving European unity. However, in recent years it has become clear that the CAP has permitted production of many products to reach proportions that can be managed only by shifting the cost to other countries. This is accomplished by insulating the EC farmer from price fluctuations with tight import protection, encouraging him to overproduce through high guaranteed support prices, and pouring the resulting overproduction onto the world market with export subsidies, regardless of the existing price situation in the world market.

The Administration, following consultations with leaders of Congress and the farm community, has decided to defend its interests where EC practices are hurting U.S. trade and, therefore, the domestic economy. U.S. farm income in real terms is at its lowest point since the depths of the great depression. Because of this situation, the Federal Government may find itself making huge financial outlays in deficiency payments and other aids to farmers. At least a portion of these difficulties find their root in the domestic support and export subsidy programs of the EC.

In the early 1970's the EC was considerably less than self-sufficient in several important agricultural commodities including wheat and wheat flour, beef and veal, poultry and sugar. By the mid-1970's, through the price support and income enhancement provisions of the CAP, the EC had achieved self-sufficiency in all of these commodities. But production increases did not stop there. In the 1970's and 1980's, surplus production has been dumped into world markets with the use of large export subsidies, in direct competition with the U.S. and other traditional export suppliers. (See figure 1.)

A recent analysis by USDA in conjunction with Michigan State University shows that, had the EC held wheat exports in 1981 at the previous year's level, they would have exported 7 MMT less. The U.S. could have exported 4.1 MMT more with an export value of $816 million (Canada 1 MMT, Australia 2MMT, and Argentina .1 MMT more), U.S. wheat producer's price would have been $.50 higher, U.S. GNP would have been $4.4 billion higher, federal tax revenue would have been $98 million greater and 16,000 jobs would have been created.

A large portion of EC agricultural exports are in the high value unprocessed, processed or semi-processed category and are exported through the use of producer, processing and export subsidies. U.S. agriculture is unable to compete in this high value market that is more stable and provides greater returns to the total economy per ton exported than do the lower value bulk commodities as long as the EC continues its subsidy policies. In 1970 the unit value of all U.S. agricultural exports was $170 per ton; by 1980 this unit value was $265 per ton. During the same period the unit value of EC agricultural exports grew from about $400 per ton to $1225 per ton.

In the case of sugar, the Community's subsidies have contributed to depress world prices which have caused the United States to institute fees and quotas to protect our domestic producers.

We face heavily subsidized EC products in a number of markets. Their poultry competes with ours in the Middle East; their wheat flour takes markets all around the world; their beef exports depress prices in a number of markets; and their dairy exports are part of the justification for maintaining our own quotas on dairy imports. Since the adoption of a common agricultural policy, the EC has changed from a net importer to a net exporter of one key agricultural product after another with tremendous impact on world markets; this trend shows every sign of continuing. They have aggressively taken markets from our private sector with the use of the combined treasure's of ten Member States.

Over a period of years, we have attempted to work out our differences bilaterally, but the EC has told us repeatedly either that we are not being hurt or that it is the Community's right to subsidize and that we should not complain. Since our bilateral discussions have been unproductive, we have taken these differences to the dispute settlement mechanism of the GATT. Although some in the EC view this as a hostile act, we see it as using arbitration to defend our rights as a contracting party to the GATT.

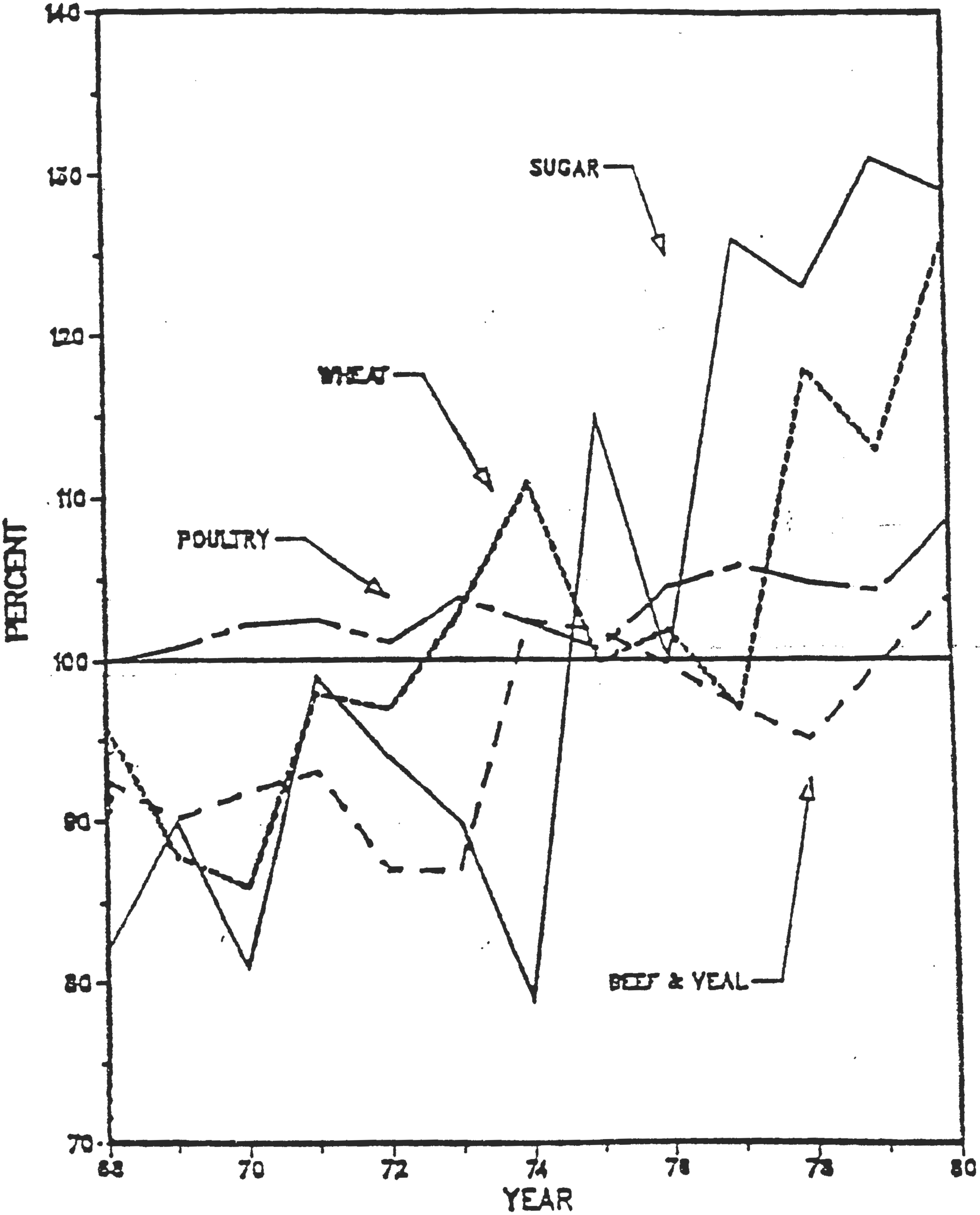
CURRENT SITUATION

The GATT cases now in progress are in each instance an attempt to pursue legitimate trade complaints. However, they also are a signal to the EC that the United States will no longer tolerate government-induced trade distortions. This is all the more crucial now that the EC is considering, for internal budgetary reasons, ways to "reform" the CAP. The United States is concerned that, among other things, some of the suggested reforms will solidify and institutionalize gains in EC exports to third country markets brought about by subsidies.

On June 24, we received formal notification from the EC that they want GATT Article 22 consultations to discuss the "disruptive effect of imports of corn gluten feed," one of the more valuable tariff concessions that we have with the EC. The Community would like to restrict such imports. To ease our pressure on EC agricultural policies would encourage the EC to seek restraints on other valuable concessions.

On the other hand, we need to find ways to strengthen the hands of those in the EC (especially the British, Dutch and Germans) who share many of our concerns and are seeking ways of making the CAP more rational. We have, in fact, been encouraged by officials in these Governments and by the Budget and External Affairs Directorate of the Commission to persevere in our efforts as the only way to bring about effective change in Community unfair trade practices.

EC SELF-SUFFICIENCY IN SELECTED COMMODITIES



U.S.- U.S.S.R. GRAIN AGREEMENT

ISSUE

The EC is extremely critical of the U.S. grain sales to the U.S.S.R. while this country presses for cooperation on trade sanctions against the Soviets. The current U.S.-U.S.S.R. Grain Agreement will expire on September 30, 1982 and the Administration must decide soon whether to negotiate a new agreement, extend the current one, or allow it to expire.

I. BACKGROUND

Soviet food policy shifted in the early 1970's from one of living with wide variation in grain supplies and slow growth in production of livestock products to one of raising the trend in livestock output and using grain imports to balance surges and shortfalls in production. The first indication of the new policy came in 1972 when the Soviets purchased 19 million tons of grain in U.S. markets within 3 months. In the wake of continued volatile and largely unpredictable purchases from the U.S., the Ford Administration suspended sales in 1975 until the U.S.-U.S.S.R. long-term grain agreement (LTG) was negotiated. The agreement required minimum Soviet purchases (6 mmt) and allowed them to purchase 2 million additional tons without consultation. The purchases were to be evenly spaced over the year. Purchases above 8 million tons could be made only after consultations with U.S. officials. During 1976-79, when the agreement was in force and before the January 1980 embargo, grain sales were less volatile than previously and the U.S. share of the Soviet market increased. Although the embargo was lifted in April 1981, the Soviets have only purchased U.S. grain residually to other supplies, notably from Argentina, Australia, and Canada. This pattern has been reinforced by the postponement of negotiations on a new agreement in the aftermath of the Polish Declaration of Martial Law. As a result, the U.S. has slipped from supplying a peak of over 70 percent of U.S.S.R. grain imports to around 40 percent. Only a fourth consecutive poor U.S.S.R. crop will prevent the U.S. share from declining even further in 1982/83.

II. DISCUSSION

Soviet Requirements. The U.S.S.R. has imported over 100 mmt of grain since June 1979, and will likely import another 40-45 mmt by July 1983. It now appears that the volatility in grain import requirements is being compounded by chronic failure to meet long term output goals. Total Soviet imports of food items, including e.g., meat, dairy products, sugar, vegetable oil, etc., account for 40 percent of all hard currency imports. In 1982, the total bill for agricultural products will likely increase by $1 billion up to $12 billion, but the total will depend on several policy and production related factors.

The Soviets are committed to ambitious food goals through the 1980's, with the intent of relying more heavily on domestic production. Although they have indicated a shift to decreased reliance on capitalist countries as a food source, the consumption goals will be difficult to meet without large-scale imports from the West.

World Grain Trade. The U.S.-U.S.S.R. Agreement is expected to have little impact on grain trading patterns in the next year. In the longer term, however, the lack of an agreement would remove the minimum levels of Soviet purchases from the U.S. Without an LTG, other exporters would likely continue their recent pattern of production expansion, to the detriment of U.S. market share in the U.S.S.R. Since 1980, Argentina and Canada have increased production by roughly 25 percent. Even larger supplies in the future will mean increased competition for non-Soviet grain trade as well.

U.S. Foreign Policy Considerations. The U.S. is pursuing, and encouraging its allies to pursue, a general policy of economic restraint with the U.S.S.R., based upon fair burden sharing in the West. A government-to-government agreement, especially one perceived as newly-negotiated, that promotes grain exports, would be regarded as an exception to that policy. It would provide Moscow with partial insurance against any future changes in grain export policy.

More specifically, negotiations with the Soviets would signal an end to one of the President's measures against the U.S.S.R. in response to the Poland crisis, undercutting the general package of Poland-related sanctions, and implying that the situation there has improved and that the U.S is prepared to adopt a "business as usual" stance. The Soviets could be expected to promote this interpretation vigorously.

Resuming negotiations would conflict with the decision to extend extraterritorially sanctions on oil and gas equipment and technology. In the absence of real changes in Poland, resuming negotiations would undermine U.S. credibility on burden sharing and U.S. efforts to induce its allies to exercise restraint in credit and trade arrangements with the U.S.S.R.

The EEC heavily criticizes the U.S. for continuing the Grain Agreement while we request them to undertake sanctions against the Soviets. Allowing the Agreement to expire, however, is unlikely to change the Europeans' attitudes. They will see our demand for additional sanctions as unreasonable regardless of the status of the Agreement. Furthermore, even without an agreement, the Soviets are likely to continue purchasing considerable amounts of U.S. grain (at least in the next year); thus, the Europeans would accuse the U.S. of undertaking no real hardship in the near term by letting the Agreement expire. Furthermore, the Europeans seem to use the Agreement as an argumentative point and care little about the substance of grain sales.

Renegotiation of the Agreement, however, (or extension of an amended agreement with a larger minimum) might cause even more rhetoric from the Europeans. They might also refuse to undertake any further sanctions and could even reverse those already imposed.

In the absence of an agreement, the U.S. would have to take drastic action under the Export Administration Act to limit Soviet purchases from the U.S. either through export controls on all foreign customers (because of severe domestic shortages) or through use of the national security and foreign policy provisions of the Act. Thus, continuation of the current agreement would be more effective in regulating U.S.-U.S.S.R. grain trade than letting the agreement expire. Some analysts believe that a new agreement would increase Soviet vulnerability to a new embargo.

On the domestic front, the U.S. farm sector is experiencing serious economic hardships in the face of record grain supplies and low prices, as well as high interest costs and continuing increases in the prices of production items. Relieving these burdens on farmers will require continuation and possibly expansion of farm programs which will require additional budget outlays. The negotiation of a new agreement that guarantees a larger share of the Soviet market for U.S. farmers is virtually the only cost-free, market-oriented step the Adminstration can take to help the farm community. It is also consistent with the central feature of the Administration's farm policy--increasing agricultural exports. Farmers will regard the decision on the agreement as a test of Administration commitment to agriculture. The U.S. maritime industry also has an interest in a new agreement in order to preserve a share of the U.S.-Soviet grain trade for U.S. shipping.

* * * *

Note: USDA has recorded its objection to paragraphs 2 and 3 under the section entitled U.S. Foreign Policy Considerations on the preceding page and to the final sentence of paragraph 2 on this page.

102590

~~SECRET~~

EXTENSION OF DECEMBER 29, 1981 SANCTIONS ON OIL AND GAS EQUIPMENT TO THE U.S.S.R. AND IMPACT ON POLITICAL AND TRADE RELATIONS WITH EUROPE

ISSUE

The President's decision to extend the December 29 sanctions to include equipment produced by subsidiaries of U.S. companies abroad as well as equipment produced abroad under licenses issued by U.S. companies, has resulted in serious strains in political and trade relations between the U.S. and several EC members, notably France, Germany, the U.K. and Italy. Japan's reaction to the decision is considerably less critical due to the production phase of the Sakhalin project having already been postponed, together with assurances given by the Soviets that the 1975 General Agreement governing the project would remain in force.

BACKGROUND

On June 18, 1982, President Reagan announced his decision to extend foreign policy controls on exports of oil and gas equipment and technical data to the U.S.S.R. to include products manufactured abroad by U.S.-owned or controlled companies or by foreign firms under U.S. licenses. Pre-June 18, 1982 controls restricted exports and re-exports of U.S. origin and gas goods and technical data for all phases of the U.S.S.R. oil and gas industry (exploration, production, transmission and refining). The controls on transmission and refining equipment were imposed on December 30, 1981, as a result of Soviet-sponsored repression in Poland. Controls on exploration and production were first imposed in July 1978 in response to harsh treatment of Soviet dissidents and the arrest of an American businessman. In addition, all licensing of high technology items to the U.S.S.R. was suspended by the December 30, 1981 decision.

The actions of June 18 were necessary because of serious U.S. concern over the continued lack of reconcilation in Poland, and continued U.S. opposition to the Trans-Siberian natural gas pipeline. In the past six months there has been little moderation of the repression in Poland.

The President's decision to amend oil and gas controls will increase the cost of the pipeline, and delay its construction. Assuming our friends and allies do not transgress our regulations, the Soviets are faced with several options: use smaller turbines from Switzerland and other sources, employ electric motors instead of gas turbines to power the compressors, or produce their own gas turbines. All of the options will significantly delay pipeline construction, raise the costs to the Soviets, and affect the efficiency and reliability of the pipeline.

~~SECRET~~

European Reactions. As anticipated, our European and Japanese allies have reacted sharply to the expanded sanctions. Their reactions, thus far, have been rhetorical, however. They have not taken any concrete measures, e.g., court action or blocking legislation.

The FRG has voiced criticism, using statements like "economic cold war", claiming that the U.S. decision went contrary to understandings reached during President Regan's visit to Bonn and to agreements made at Versailles. The French followed with equally hostile accusations and expressed fear for the weakening of the Western Alliance. Italian officials have also expressed concern over the expansion of the sanctions, claiming that the U.S. action would hurt Western European companies more than the U.S.S.R. The European Community issued a statement, following a late June summit meeting, criticizing the expansion of the sanctions. The EC claimed that the U.S. action, taken without consultation with the Community, is contrary to principles of international law, unacceptable to the Community, and unlikely to be recognized in EC courts. (This criticism is somewhat unwarranted since consultations have been ongoing since the imposition of sanctions in December 1981.) The Community also called for a dialogue at the highest levels to find solutions to a range of contentious trade issues ranging from steel to agriculture.

The U.K. has issued an order invoking the Protection of Trading Interests Act (PTI) of 1980, asserting that the U.S. controls are damaging to British trading interests. The order, thus far, does not carry substantive actions. The British can take additional measures to: (1) require U.K. firms not to provide information to the USG or (2) prohibit them from complying with U.S. regulations. British officials stressed that the U.K. wants to avert confrontation with the U.S. on this issue. Other countries might follow the precedent in an export controls conflict fifteen years ago when a French court put a receiver in charge of a U.S. subsidary to compel shipments to China barred by U.S. controls.

(A State Department paper, "Poland and Economic Sanctions: Managing These Issues with the Allies, Poles, Soviets, and Domestically," which discusses this issue, among others, at greater length is attached. Also attached is a paper, "Energy Alternatives," which discusses the U.S. effort, currently under the guidance of an interagency group headed by Under Secretary Buckley, to develop other energy sources in the West as alternatives to gas from the Siberian pipeline.)

Economic Costs. The President's decision to expand controls on oil and gas equipment and technology can result in a noticeable economic loss to U.S. firms and U.S. foreign subsidiaries and licensees. It is estimated that U.S.-based company export losses from the December 30 sanctions could range from $300 - $600 million over the next three years. U.S.-owned or controlled companies abroad could lose, as a result of the June 18 decision to extend controls, an additional $600 million over the next three years, while foreign firms which are licensees of U.S. technology stand to lose over $1 billion over the next three years.

Besides the estimated short-term costs to U.S. companies and their foreign subsidiaries there can be a diminution of the U.S. reputation as a reliable supplier of equipment and technology and as a dependable commercial partner.

There exist about 40 U.S. companies with subsidiaries that have been brought under the export control umbrella as a result of the June 18 actions. The major ones are (country in parenthesis indicates where subsidiary is located): ARMCO (Brazil), Baker (U.K.), Camco (U.K.), Cameron Iron Works (France), Control Data (France), Dresser (Canada, France), FMC (France), Grove Valve and Regulator (Italy), Honeywell Control and Measuring Devices (Austria), Howmet Turbine Components (U.K., France), and Rockwell International (Netherlands).

In addition there exist at least an equal number of foreign firms that depend on U.S. technology to manufacture oil and gas equipment. The significant ones include: Alsthom-Atlantique (France, GE licensee), John Brown (U.K., GE licensee), AEG Kanis (FRG, GE licensee), Nuovo Pignone (Italy, GE licensee), Mitsubishi (Japan, TRW licensee), and Hitachi (Japan, GE licensee).

Legal Implications. To date, we know of no violations of the U.S. controls. Any creditable investigative leads concerning questioned controls would, of course, be vigorously investigated by the Commerce Department Office of Export Enforcement. If, as a result of such an investigation, a violation were found to have occurred, appropriate administrative and/or criminal sanctions would be pursued, depending on the circumstances underlying the violation(s), i.e., the technology and products involved, the scope and nature of the facts constituting the alleged violation(s), the strength and availability of competent evidence of the alleged offense, and the equity considerations in the case. We have a broad range of administrative and criminal sanctions available against any violations:

Administrative Sanctions -- Formal administrative proceedings can be initiated which could result in: (1) the imposition of a civil penalty of up to $10,000 per violation for violations of the foreign policy controls; (2) suspension or revocation of existing export licenses; and/or (3) partial or total denial of U.S. export privileges for a specified period of time.

Criminal Sanctions -- Criminal charges would also be considered for violations of the controls. Any foreign company official individually charged may be arrested if he enters the United States. He may also be arrested on the basis of probable cause. Anyone who knowingly violates any of the controls is subject to a fine of five times the value of the exports or $50,000, whichever is greater, or to a five year prison term, or both. Willful violations of the new controls on the part of a company could result in the firm's being fined five times the value of the export involved or one million dollars, whichever is greater. Individuals who willfully violate the controls may be fined up to $250,000 or sentenced to a prison term of up to ten years, or both for each violation.

Poland and Economic Sanctions: Managing These Issues with the Allies, Poles, Soviets and Domestically

BACKGROUND

The combination of mounting Allied resentment over the President's June 18 sanctions decision, hints that significant moves by the Polish regime toward relaxing martial law may be announced July 22, and a delicate negotiation between the Pope and the Polish regime regarding his proposed visit to Poland in August make it essential that we focus on the sanctions issue. How we manage this issue over the next month will have very broad implications, since we have linked other questions, such as this fall's CSCE meeting in Madrid and sanctions on oil and gas equipment, to developments in Poland. The manner in which we handle the increasingly pressing question of Polish debt will also have ramifications far beyond Poland itself given the manifold uncertainties currently at play on the international financial markets.

Impact of the Sanctions Decision. How our European friends plan to play this issue remains a matter of conjecture. To a degree, the decision rests with the Soviets, who can decide whether or not to insist that the contracts, which cannot now be fulfilled under US regulations, be met by the three European turbine manufacturers. The Soviets could, by calling the Europeans for non-performances, cancelling the contracts, and invoking penalty clauses, remove a certain element of urgency from our consideration of the issue, although the resulting bankruptcies and additional unemployment in Western Europe would further sour Atlantic relations for some time to come. This could also be the source of legal challenges to the President's decision both here and in Europe. Given the uncertainties involved, the legal route does not offer an attractive means to resolve this dispute from our point of view. For our Allies, this route appears much too time-consuming as far as the case at hand is concerned.

Unless the Soviets move quickly to invoke penalty clauses and/or cancel their contracts, we estimate that the Europeans will make yet another effort, individually at first and perhaps then collectively, to persuade the President to reverse his decision. If they follow this course of action, we will have a certain element of leverage over them. The question which then arises is what we should seek to persuade them to do, the two obvious alternatives being further steps regarding credits and actions in the Polish context.

<u>Possible Linkage with Credits</u>. One reason for European unhappiness with the June 18 decision is their claim, which can only be based on a misreading of the situation, that the understanding reached at Versailles on future credits to the Soviet Union presupposed a decision by the President to permit the execution of contracts in existence at the time of his original December 30 sanctions decision. The President's reaction to the agreement reached at Versailles makes clear that lacking a strong credits arrangement he felt he should extend the sanctions and link the extension to continuation of the situation in Poland. Obviously, further Allied action to restrict official credits and credit guarantees to the Soviet Union is a highly desirable objective. We must recognize, however, that there is very little possibility with a continuation of the sanctions that the Allies, in particular the French, will go beyond (a) the very limited agreement at Versailles (or even effectively implement it) or (b) the June 30 agreement to revise the OECD export credit consensus arrangement, which has the effect of pushing the minimum lending rate for credits to the Soviet Union up from 10.5 percent to 12.15 percent. We should further recognize that even were the Allies willing to do significantly more on the credits front, it is not clear that this would satisfy the President's requirements, which are explicitly tied to Poland; to mislead them on this score would be irresponsible. This leads us back to the situation in Poland and the inescapable fact that, at least in the short run, absent an extremely umpromising effort to put together a credits-for-sanctions package, movement on the sanctions depends on developments in Poland.

<u>Situation in Poland</u>. At this point, the outlook for movement in Poland toward satisfying the three Allied conditions (end of martial law, release of detainees and resumption of "genuine" dialogue with Solidarity) is uncertain at best. Clearly, a major struggle is underway within the Polish leadership regarding what measures, if any, should be taken in connection with the July 22 National Day toward satisfying these conditions. From the beginning, US and Alliance policy has been that sanctions are reversible provided the conditions are met. One thing which is almost certain, however, is that whatever emerges on July 22 will be less than full satisfaction of the three conditions, posing in a particularly difficult way the question which we have not yet been unable to answer of "how much is enough" to remove some, or all, of the sanctions. The Pope's proposed visit to Poland in connection with the 600th Anniversary of the Madonna of Czestochowa is another factor putting pressure on the Polish leadership to relax martial law and its attendant restrictions. Opposition to the Papal visit, notably from

Moscow, dramatizes the link between this event and the internal situation in Poland.

Allied Attitudes. Our Allies are anxiously awaiting any move by the Polish authorities which can serve as a basis for relaxing, and if possible removing, both the political and economic sanctions which they adopted following the December 13 imposition of martial law. The Allies are not united on which sanctions to relax or on the degree of urgency; they expect a sober and restrained approach and hard barginining with us. Nonetheless, the urge to relax sanctions if the Polish authorities move is general. On the political side this relates primarily to how the West will handle the resumption of the Madrid CSCE Review Conference on November 9 and the possibility of enhanced contacts with the Warsaw regime. None of the Europeans belive the resumed conference can or should be devoted exclusively to Poland, as the last session was, and the search is on for ways to open out the agenda; the Swiss are peddling the concept of private US-Soviet contacts to turn the key. On high-level contacts with the Polish government, these have been sporadic since December 13 (Schmidt, for example, met with Foreign Minister Czyrek June 14 in New York). Our Allies see some benefit in an enchanced political dialogue with Warsaw.

On the economic front, the Allies are clearly anxious to remove some or all of their remaining sanctions, particularly in the critically important area of debt rescheduling and new credits. Although there is little or no enthusiasm in Western Europe for assistance to Poland, per se, aside from an impressive humanitarian effort centering in Germany, there is substantial support for debt rescheduling and perhaps the provision in that context of limited new assistance to Poland (particularly for spare parts and industrial raw materials needed for exports), which would, in turn, make it possible for the Poles to service, even in a symbolic way, their rescheduled debts. The Europeans are distinctly unenthusiastic, given the mounting pressures on the international financial markets, about encountering the uncertainties which default on Poland's $27 billion foreign debt would entail. Even the most exposed European banks (Dresdner, BFGW and Credit Anstalt-Bankverein) could absorb a Polish default, but the Europeans fear the ripple effect of a default, not without reason. Unless the Europeans decide to go it alone, any movement on rescheduling would depend upon whether the US is willing.

Taking all these factors, including the European attitude, into account, our key objectives will be to: (a) join with our Allies in exerting maximum pressure on the Poles, and the Soviets, prior to July 22 to satisfy the three conditions; and (b) avoid a situation in which we and our Allies argue about whether moves taken by the Poles to relax the December 13 measures are "enough" to justify corresponding moves by the West and, if so, which measures would be appropriate on our side. Reaching agreement on this point will be extremely difficult, and the Poles (and Soviets) will doubtless do everything they can to use this issue to provoke additional disputes in the West.

RET'D AND DESTROYED BY

ON

EXCEPT FOR ATTACHMENTS

II-90524

THE WHITE HOUSE

NATIONAL SECURITY COUNCIL MEETING

11:00 A.M.

Friday, July 16, 1982

JUDGE WILLIAM P. CLARK

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE(S) CN

CLASSIFIED

SYSTEM II
90524

NSC Meeting, July 16, 1982
11 a.m.

Agenda

1.	Introduction	Clark
2.	Discussion of Broad Strategy and Approach to US-EC Economic Relations	Shultz
3.	Review of Specific Issues	
	a. Steel	Baldrige
	b. Agriculture	Block
	c. GATT	Brock
	d. Grain Agreement	Shultz/Block
	e. Sanctions	Clark
4.	Conclusion	Clark

WITHDRAWAL SHEET
Ronald Reagan Library

Collection Name
EXECUTIVE SECRETARIAT, NSC: MEETING FILE

Withdrawer
CAS 1/5/2011

File Folder
NSC0054 7/16/1982 (1)

FOIA
M10-325/2
RAKU

Box Number
4

1

ID	*Document Type* / *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
102594	HANDWRITTEN NOTES	1	ND	B1 B6

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.

Haig
Baldridge
Mac
Don Regan
Bill Brock
Wpz

Integration

Consumer
milestones
announce

TALKING POINTS

For Judge Clark, NSC Meeting
July 16, 1982

Genesis – date

-- Mr. President, our subject today is U.S.-allied economic relations.

-- In the first 18 months of your Administration, you premised much of your economic policy toward the allies and the rest of the world on U.S. economic recovery and the view that economic revitalization of the U.S. and the West is an essential element of strengthening our common security and defense.

-- Much has been accomplished in our economic relations with the allies. At Ottawa and Versailles, you advocated a long-term, patient approach to our economic difficulties, addressing fundamental problems of inflation, money growth, productivity and so on, and counseling against quick fixes. That point of view prevailed at Versailles despite the unprecedented economic conditions that currently exist.

-- Economic recovery in the U.S., however, which is the basic solution to our difficulties has been delayed. This has inevitably contributed to increasing economic and trade tensions with our allies. U.S. interest rates and budget deficits, agricultural and steel issues have been subjects of an ongoing debate for the past year.

See Atwater

SYSTEM II
90524

TALKING POINTS

For Judge Clark, NSC Meeting
July 16, 1982

-- Mr. President, our subject today is U.S.-allied economic relations.

-- In the first 18 months of your Administration, you premised much of your economic policy toward the allies and the rest of the world on U.S. economic recovery and the view that economic revitalization of the U.S. and the West is an essential element of strengthening our common security and defense.

-- Much has been accomplished in our economic relations with the allies. At Ottawa and Versailles, you advocated a long-term, patient approach to our economic difficulties, addressing fundamental problems of inflation, money growth, productivity and so on, and counseling against quick fixes. That point of view prevailed at Versailles despite the unprecedented economic conditions that currently exist.

-- Economic recovery in the U.S., however, which is the basic solution to our difficulties has been delayed. This has inevitably contributed to increasing economic and trade tensions with our allies. U.S. interest rates and budget deficits, agricultural and steel issues have been subjects of an ongoing debate for the past year.

-- In addition, political events in Poland have intervened to complicate allied relations on East-West economic issues. Your recent decision to extend sanctions on oil and gas equipment and technology extraterritorially shocked the allies and in some quarters has led to a general sense of crisis especially in the U.S.-European relations.

-- Our purpose today is to begin to address the question of how we proceed to deal with current provlems in our economic relations with the allies. We need to address three issues:

1. Is there any reason to alter the basic approach and premises of our economic policy toward Europe?

2. What should be the general character of our approach to current European concerns? Do we react at high levels or work the issues through regular channels?

3. What flexibility do we have in dealing with specific issues? Can we find areas where mutual concessions would produce some agreements in the short-run?

-- You are not being asked today, Mr. President, to make decisions. Our objective is to discuss the nature of the problems we face and to look for flexibility, options, alternatives in managing these problems.

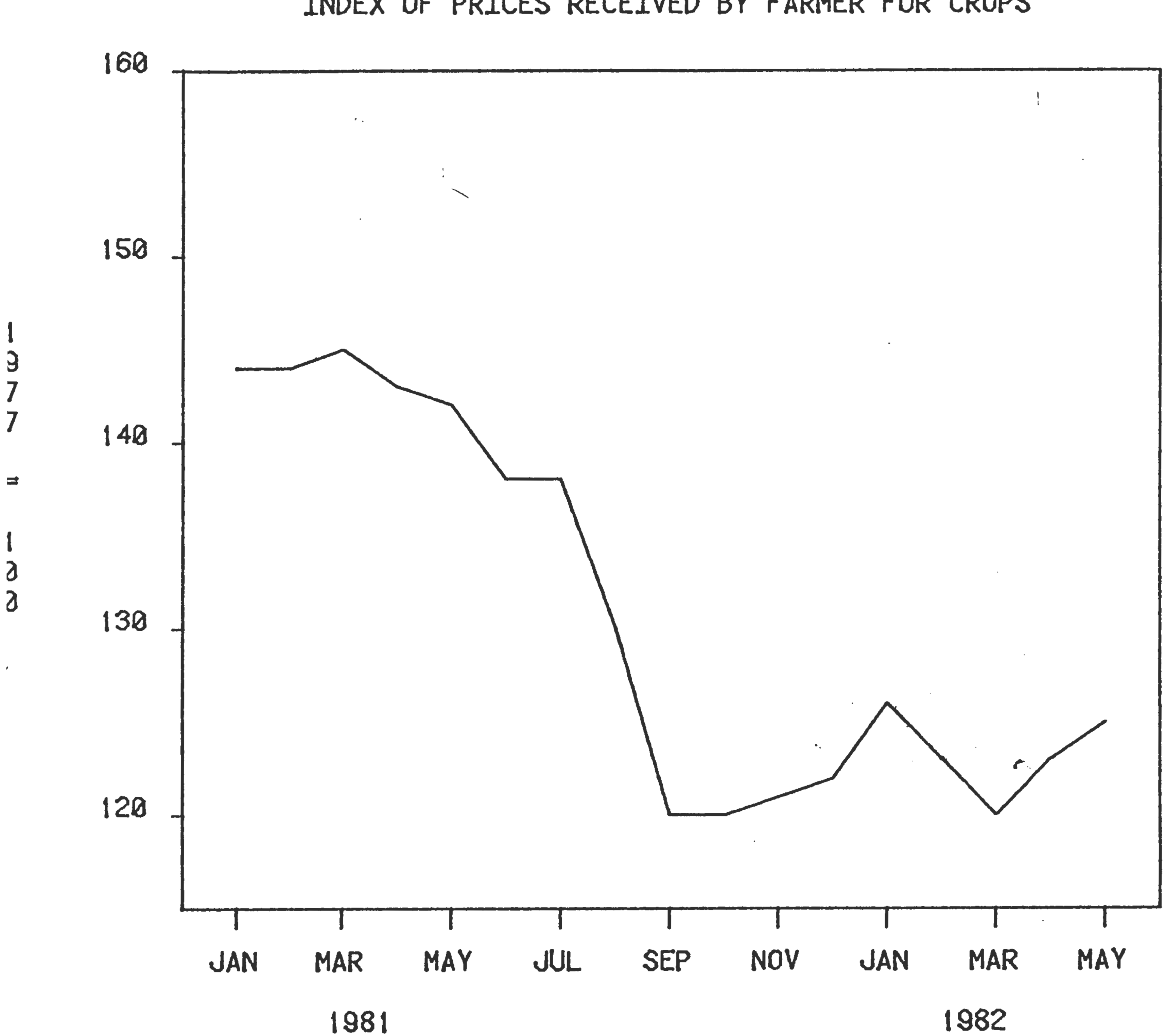
-- Let's begin with Secretary Shultz on the subject of broad strategy and approach. Welcome to the firing line!

(If you desire at some point to focus the discussion on the grain agreement~~s~~).

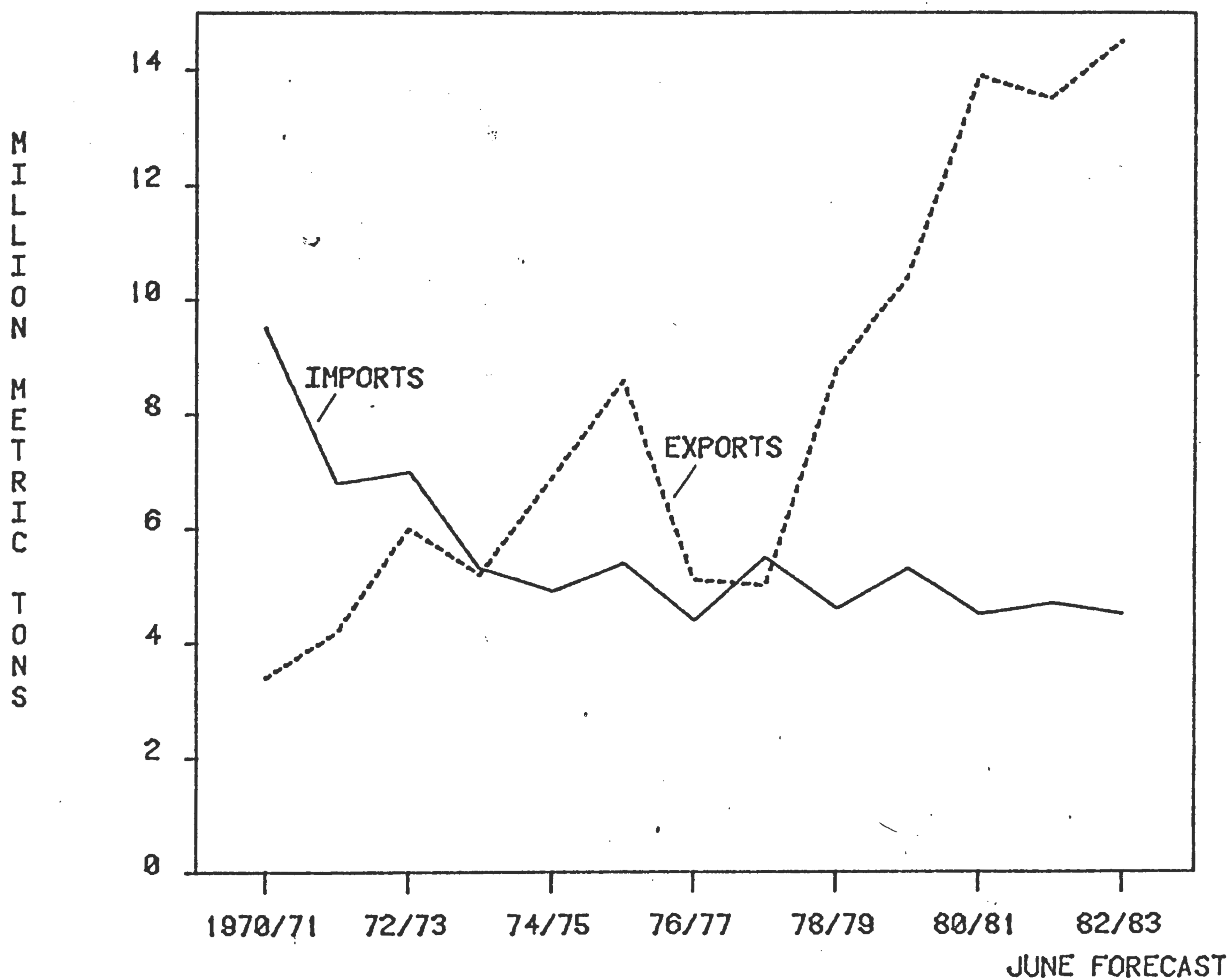
-- Mr. President, it may be useful to focus for a moment on the issue of the long-term grain agreement. There are two issues to be decided: the decision among various options and the timing of the announcement of this decision.

-- There are three basic options presented in the discussion paper for this meeting. A decision among these options is needed shortly.

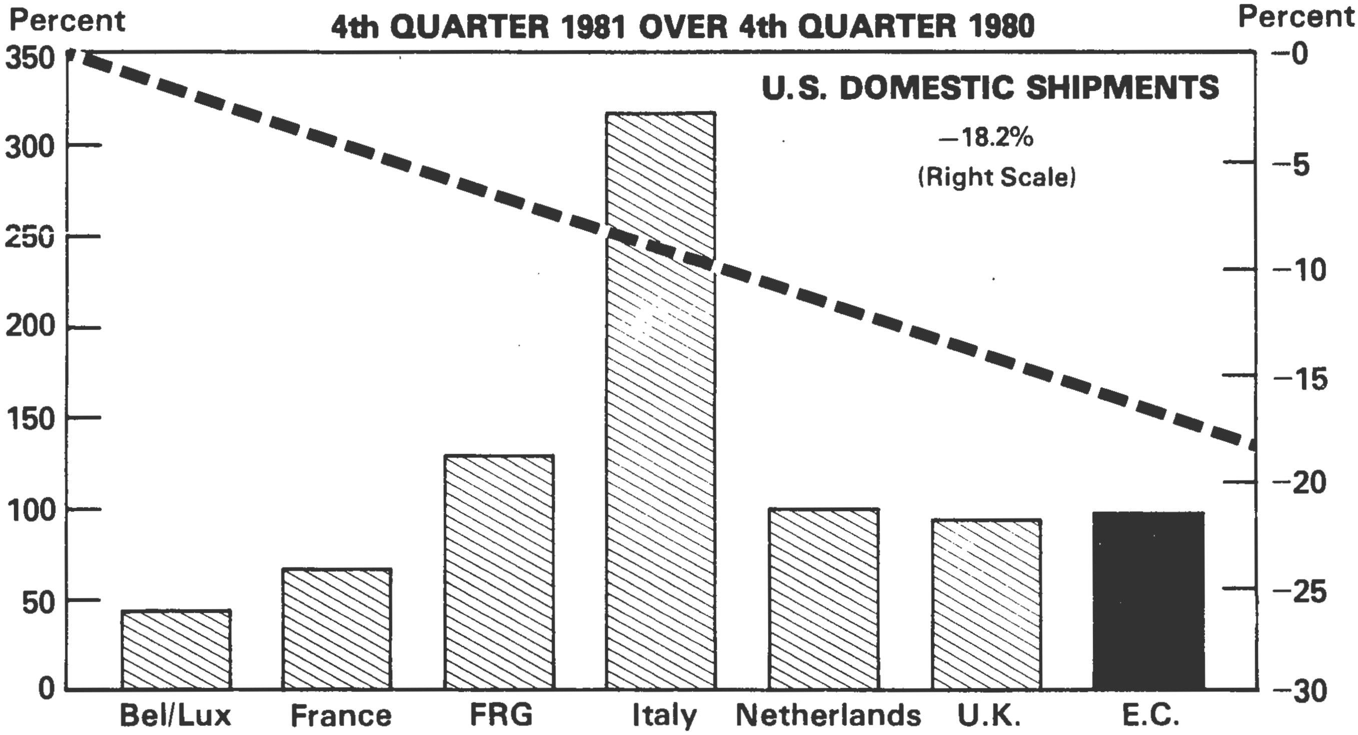
-- The timing question is whether we announce this decision before the events which are expected to occur in Poland on July 22 or after these events. This issue affects the way the decision will be interpreted both in Moscow and in Europe.

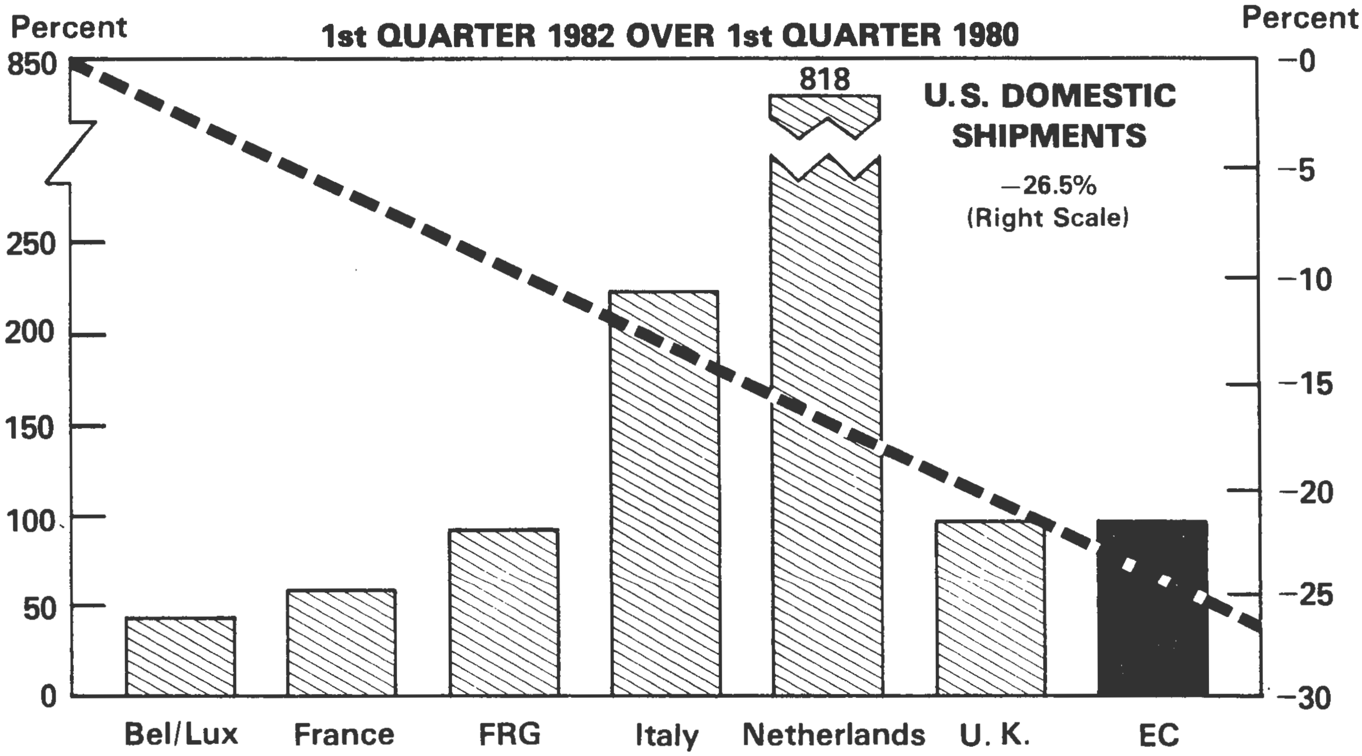

INDEX OF PRICES RECEIVED BY FARMER FOR CROPS
160
150
140
130
120
1977 = 100
JAN
MAR
MAY
JUL
SEP
NOV
JAN
MAR
MAY
1981
1982

EC Wheat Trade

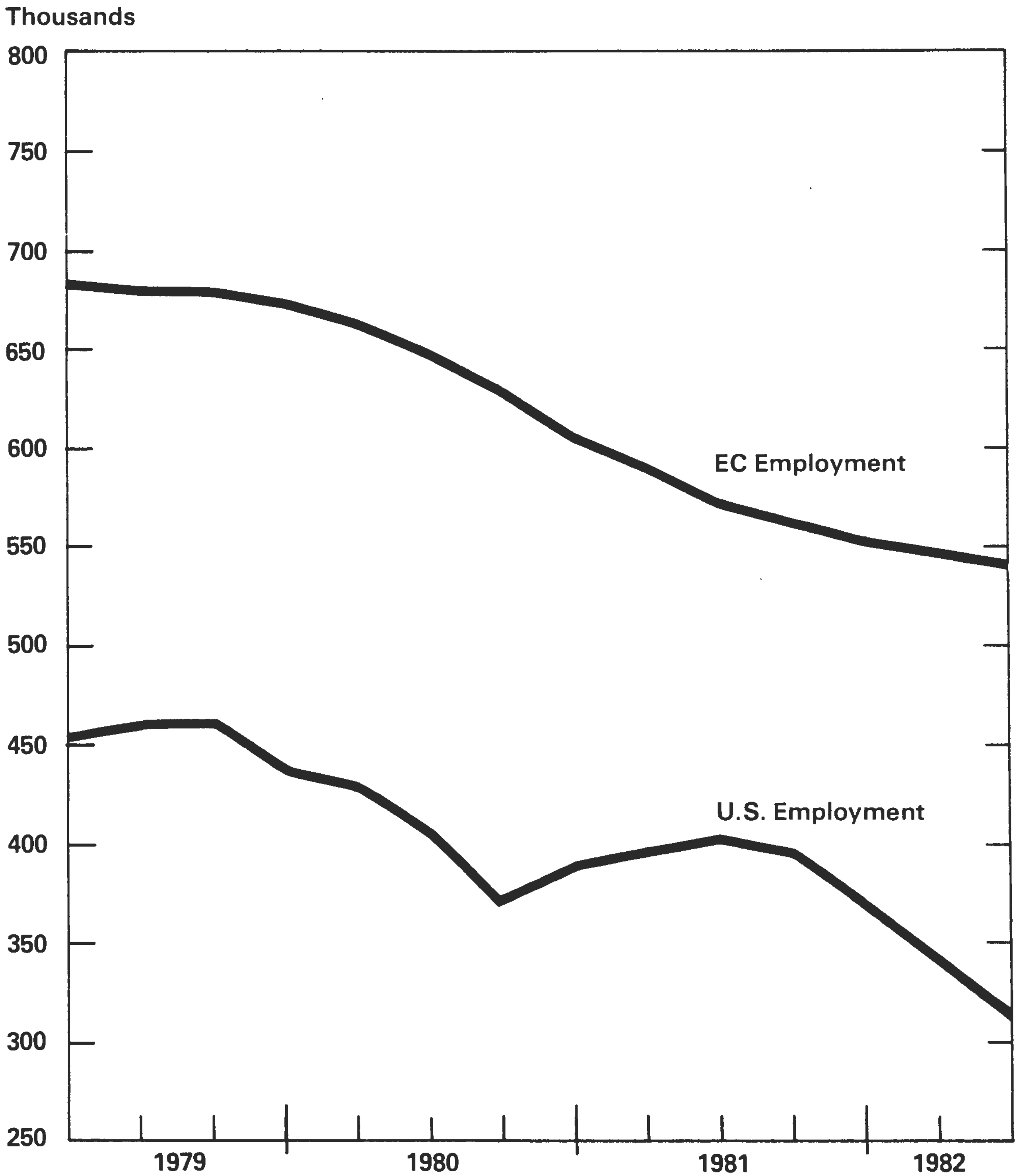


Percent Increases in EC Steel Exports to the U.S. Compared with Change in U.S. Domestic Shipments

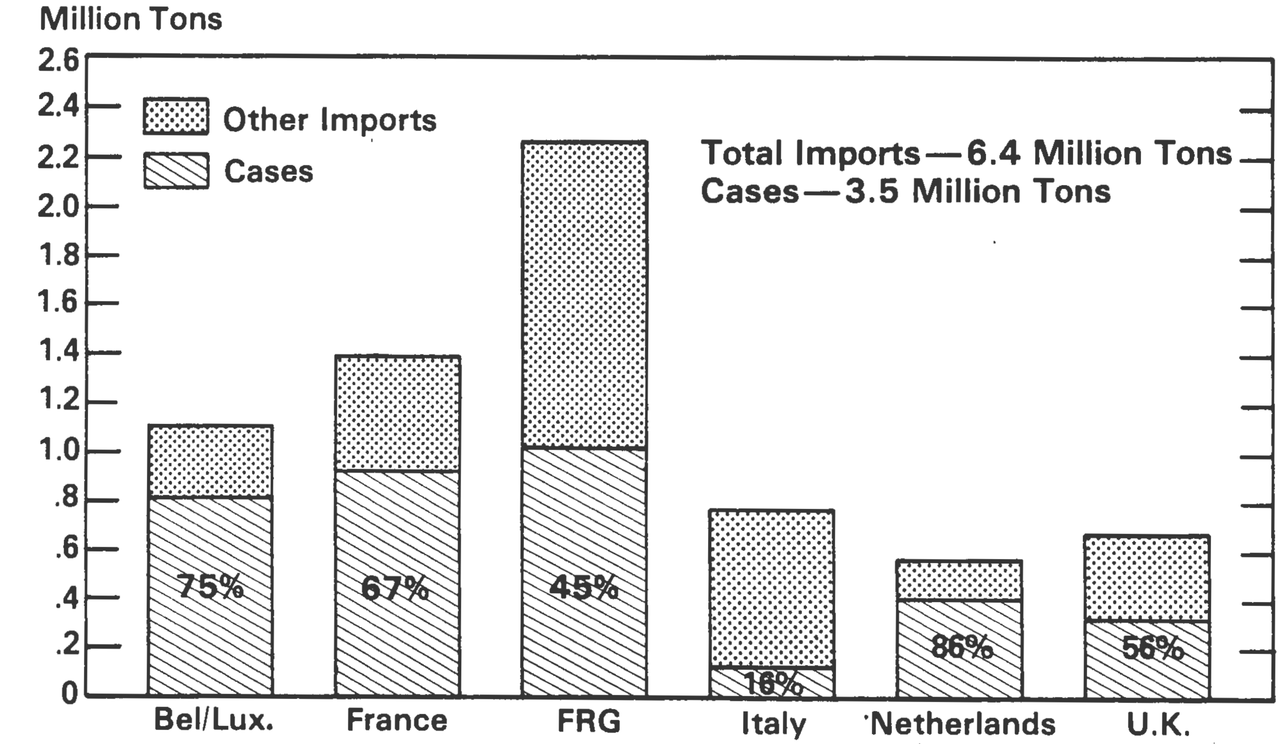


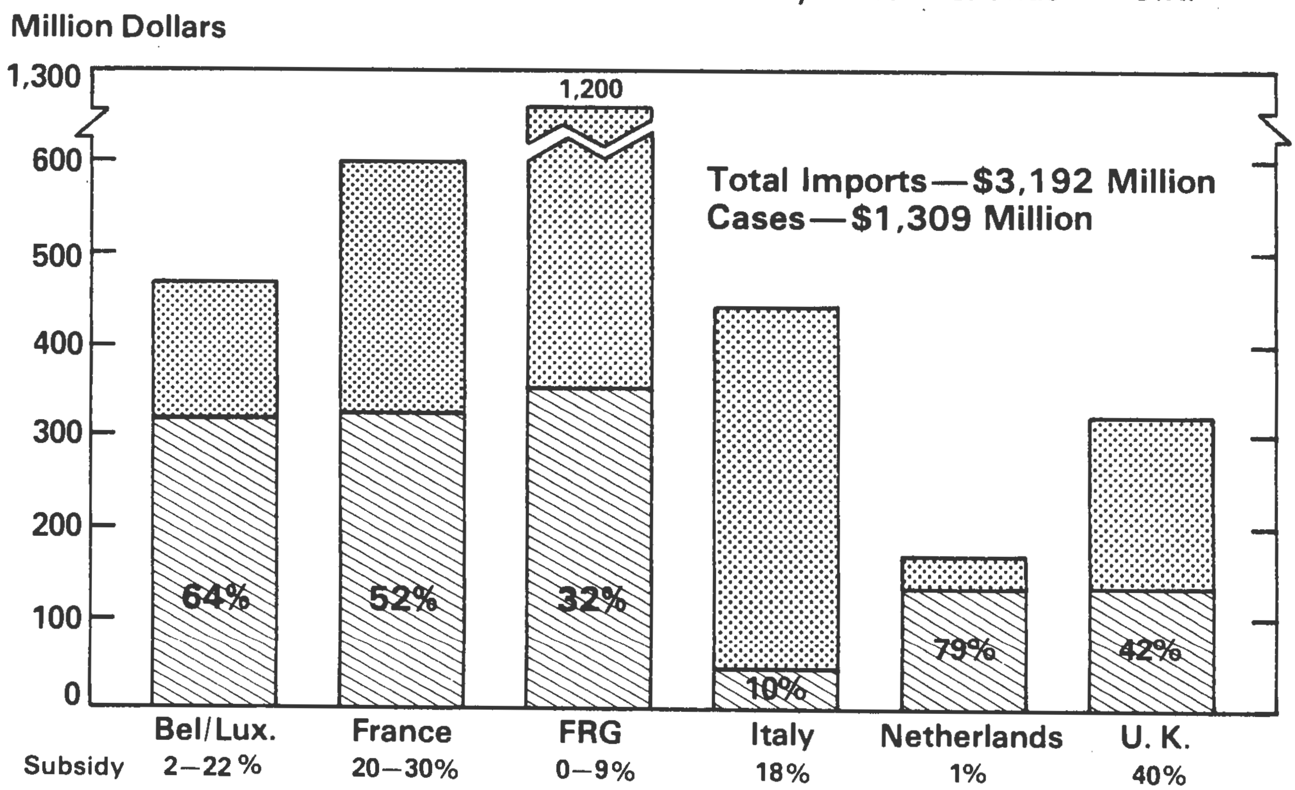


U.S. and EC Steel Industry Employment



Total Steel Imports from EC and Imports Covered by Cases — 1981





Sample EC Steel Subsidies

- Grants
- Low Interest Loans
- Deferral of Principal Repayment on Loans
- Equity Infusions by Governments
- R & D Grants and Loans

VIA LDX

102592

THE WHITE HOUSE

WASHINGTON

4812

~~SECRET~~

July 16, 1982

MEMORANDUM FOR THE ACTING SECRETARY OF STATE

SUBJECT: Consultations with our Allies on Poland

In view of the sensitive nature of the issues involved, and the President's personal interest, I would like to make clear several guidelines for our consultations with Allies on the Polish sanctions. These guidelines should form the basis of our approaches to the Allies over the next several weeks as we work to rebuild a coordinated Western response to events in Poland.

-- U.S. sanctions against Poland and the Soviet Union, have been and will continue to be based on the course of events in Poland. The further extension or relaxation of these sanctions depends on the actions of the Polish regime;

-- If the Polish regime takes significant actions on the three stated Western goals for Poland, the United States is ready to respond with correspondingly significant relaxation of its sanctions;

-- Unified action by the Alliance on sanctions, based on the January 11 NAC principles, coupled with the positive humanitarian actions to help the Polish people directly, are the most effective means to reach our common goals;

-- We are not prepared to relax our sanctions, nor do we believe that any Ally should, in response to essentially cosmetic liberalization by the Polish regime;

-- We are not ready to discuss at this point specific actions which we will take in response to specific actions, if any, by the Polish regime on July 22; we will be conferring with the Allies in NATO after any Polish initiatives in order to develop a measured, coordinated response.

~~SECRET~~
Review on July 14, 2002
Reason: State RDS-1

DECLASSIFIED

NLRR M325/2 # 102592

BY KML NARA DATE 9/26/13

The President has not yet made a decision about the extent of Polish liberalizing measures which would justify lifting the oil and gas sanctions. However it would require Polish actions which contribute significantly to restoration of the pluralistic process which was in progress in Poland before December, 1981. On a second issue of interest to the Allies, the President has not as yet made a final decision on whether to renegotiate or extend the grain agreement with the Soviet Union.

FOR THE PRESIDENT:

William Clark

William P. Clark

cc: The Secretary of the Treasury
The Secretary of Defense
The Secretary of Agriculture
The Secretary of Commerce
The Director of Central Intelligence

RET'D AND DESTROYED BY

ON

EXCEPT FOR ATTACHMENTS
TO INCLUDE DRAFT MINUTES

CLASSIFIED
II-90524

THE WHITE HOUSE

NATIONAL SECURITY COUNCIL
MEETING

11:00 A.M.

Friday, July 16, 1982

ADMIRAL JOHN M. POINDEXTER

UNCLASSIFIED UPON REMOVAL
OF CLASSIFIED ENCLOSURE(S)
CN 1/5/11

CLASSIFIED

SYSTEM II
90524

16 July 82

NSC Meeting US/EC Economic Relations

Clark - Introduction -
Shultz - Regan will review NSDD and get to the President this weekend.

Regan - endorsed need for SIG-IEP.

Baldrige - Review for steel problem.
EC trying to solve their unemployment problem by transferring it to us.
Negotiating gov't to gov't. Have to have acquiescence of US industry.

UK, Belg., France and Italy would be excluded from US market if we impose duties.
Both sides want to settle out of court.
50-50 chance of reaching agreement.
Need help from Treasury on customs and Justice.

Pres Does US produce enough steel for our own US. Do we export?

Bald Only some specialty steel.
Bad management and lack of capital invest makes our steel too expensive. Improving.

Brock Our steel industry has been uncompetitive

Pres Jorgenson is doing OK.

Block High support of EC agri by EC govts has driven EC production up

Problem: Our support of NATO defense and strategic defense allows EC to spend taxes on supports and subsidies while we can't afford these supports.
EC growing to be largest agri exporter.
US farmers are fed up with EC practices.
EC believes all we will do is talk.
We need to take some action.

Brock GATT ministerial - it is crucial we make progress to avoid a trade war.

We need rules on agri products.
Making progress

Shultz Strain in EC over agri policies. It's a French policy that others don't like

Jo Clark: Review of sanctions. History -

Brock Has there been any definition of the linkage between lifting sanctions and Polish actions?

President I am willing to consider that.

Regan How tight are we going to make regulations?

Baldrige As rigorous as legally possible

Olmer Question is how we will enforce. It will be done at policy level.

Baldrige One relaxation could be letting them go ahead and use rotors shipped prior to 29 Dec.

Block LTGA —

Options – complete new agreement
– extend for 1 year with higher limits
– (preferable for 2 years).
– no agreement

Shultz – must be consistent but see we must sell. Should be done under an agreement.

~~Block~~

<u>Brock</u> should hold up any decision.

<u>President</u> Will withhold decision today on LTG agreement.

<u>Cap</u> Not extra-territoriality.
Why have an agreement. Will sell anyway.

<u>USUN</u> We have support in this hemisphere in being upset with EC methods on trade.

<u>Regan</u> Must have an agreement

<u>Cap</u> We can control grain sales without an agreement

<u>Brock</u> - not legally.

CLASSIFIED
II-90524

THE WHITE HOUSE

NATIONAL SECURITY COUNCIL MEETING

11:00 A.M.

Friday, July 16, 1982

THE VICE PRESIDENT

Destroyed - July 16, 1982

RET'D AND DESTROYED BY

________ ON ________

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE(S)

CW 1/5/11

CLASSIFIED

CLASSIFIED

II-90524

RET'D AND ...

THE WHITE HOUSE

NATIONAL SECURITY COUNCIL MEETING

11:00 A.M.

Friday, July 16, 1982

MR. EDWIN MEESE III

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE(S)

CLASSIFIED

GN 1/5/11

RCT'D AND DESTROYED BY

_______ ON _______

~~CLASSIFIED~~

II-90524

THE WHITE HOUSE

NATIONAL SECURITY COUNCIL MEETING

11:00 A.M.

Friday, July 16, 1982

MR. MICHAEL K. DEAVER

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE(S)

CAS 1/5/11

~~CLASSIFIED~~

67

National Security Council
The White House

Package # 4524

	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter	1	✓	
Bud McFarlane	2	✓	
Jacque Hill	3	✓	
Judge Clark	4	✓	A
John Poindexter			
Staff Secretary			
Sit Room			

I–Information A–Action R–Retain D–Dispatch N–No further Action

DISTRIBUTION

cc: VP Meese Baker Deaver Other ___________

COMMENTS

URGENT

FRIDAY NSC MTG

SYSTEM II
90524

MEMORANDUM

NATIONAL SECURITY COUNCIL

July 15, 1982

MEMORANDUM FOR WILLIAM P. CLARK SIGNED

FROM: HENRY R. NAU HRN

SUBJECT: NSC Meeting, July 16, 11 A.M.

I have attached at Tab I a memo from you to the President on the NSC meeting scheduled for tomorrow.

I have also attached at Tab II an agenda and talking points for your use.

RECOMMENDATION:

That you sign the memo to the President at Tab I.

Attachments:

Tab I Memo to President
Tab II Talking Points