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THE WHITE HOUSE
WASHINGTON

TO:

FROM: *Richard A. Hauser*
Deputy Counsel to the President

FYI: _____

COMMENT: FYI

ACTION: _____



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

*operative
privilege*

6:15 pm, April 18, 1985

MEMORANDUM FOR BRAD REYNOLDS, DEPT OF JUSTICE
DICK HAUSER
MIKE HOROWITZ
JOHN COONEY
BOB BEDELL

FROM: DOUGLAS GINSBURG

Enclosed are draft letters to Chairmen Weiss and Dingell, and a draft memorandum to the heads of those agencies that received requests for their regulatory programs.

These drafts have been approved by everyone other than Brad Reynolds. (There is one change that is new: in the second sentence of the memorandum, reference is made to "the relevant subcommittees" rather than "your oversight subcommittees" since the latter term was not accurate).

The letters and memorandum will be sent as soon as we have heard back from Brad Reynolds. Please phone any further comments to me as early as possible on Friday, April 19. Agencies are to respond to Dingell by c.o.b. Friday.

Attachments



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

Honorable John D. Dingell
Chairman, Subcommittee on Oversight
and Investigations
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am enclosing a copy of my Memorandum to the Heads of Certain Departments and Agencies that should be dispositive of your letters of February 19 and April 15 to several of these agencies requesting that they provide the Subcommittee with copies of regulatory plans that they submitted to OMB pursuant to OMB Bulletin No. 85-9.

As you will note, we have advised those agency heads that an affirmative response to your requests for copies of the regulatory plans would be appropriate given the unique circumstances of this initial year of the program. Accordingly the agency plans will be promptly made available to the Subcommittee.

Sincerely,

David A. Stockman
Director

Enclosure



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

Honorable Ted Weiss
Chairman, Intergovernmental Relations and
Human Resources Subcommittee
Committee on Government Operations
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am enclosing a copy of my Memorandum to the Heads of Certain Departments and Agencies that should be dispositive of your letters of March 6, 1985, to several of these agencies requesting that they provide the Subcommittee with copies of regulatory plans that they submitted to OMB in February 1985 pursuant to OMB Bulletin No. 85-9.

As you will note, we have advised those agency heads that an affirmative response to your requests for copies of the regulatory plans would be appropriate given the unique circumstances of this initial year of the program. Accordingly the agency plans will be promptly made available to the Subcommittee.

Sincerely,

David A. Stockman
Director

Enclosure



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

MEMORANDUM TO HEADS OF CERTAIN EXECUTIVE DEPARTMENTS AND AGENCIES

SUBJECT: Congressional requests for draft regulatory programs submitted pursuant to Executive Order No. 12498

You have received requests from the Chairmen of the relevant Subcommittees of Congress to provide a copy of your draft regulatory plan submitted to this Office under Executive Order No. 12498. After consultation with the Department of Justice and the Office of Counsel to the President it has been decided that, under the unique circumstances of this first year of the program, you may provide access to your draft regulatory plan in response to these requests.

This advice is based upon the fact that because the process set forth in Executive Order No. 12498 has been instituted relatively late in the planning period during this first year, agencies, in an effort to meet new requirements and demanding deadlines, have transmitted to us what often appears to be compilations of pre-existing materials already available to Congress and the public in other formats. In other words, much of what we have received does not reflect the more considered and deliberative regulatory planning process that the Order called for and that we anticipate will be developed in future years of the program. Furthermore, it appears that some of the draft plans have already been made available to Congress, resulting in some Members of Congress and Committees having access to some of the plans and others not.

Therefore, although the draft regulatory plans are clearly within the deliberative process, disclosure of them this year, given these unique circumstances, is not likely further to impair that process within the executive branch or other aspects of the executive branch's constitutional duties.

The President promulgated E.O. No. 12498 in order to help ensure that each major step in the process of rule development is carefully considered by the agency head and consistent with Administration policy. For next year, we intend to review OMB Bulletin No. 85-9 and make modifications and changes to the procedures, as necessary, on the basis of the experience gained during this initial year. We intend to complete the process early so that the program can be fully implemented next year on a more timely and informed basis.

David A. Stockman
- Director

To John
Date 4/30 Time 9:30

WHILE YOU WERE OUT

M Don Phillips
of USIR
Phone 7210

Area Code	Number	Extension
TELEPHONED	<input checked="" type="checkbox"/>	PLEASE CALL <input checked="" type="checkbox"/>
CALLED TO SEE YOU		WILL CALL AGAIN <input type="checkbox"/>
WANTS TO SEE YOU		URGENT <input type="checkbox"/>
RETURNED YOUR CALL <input type="checkbox"/>		

Message re: Cooper etc

Operator [Signature]

THE WHITE HOUSE

WASHINGTON

April 23, 1985

MEMORANDUM FOR FRED F. FIELDING

FROM: JOHN G. ROBERTS *JGR*

SUBJECT: Letters to Congress Regarding Copper

As discussed at this morning's staff meeting, I think this would be better going out under your signature.

Attachment

THE WHITE HOUSE

WASHINGTON

April 23, 1985

MEMORANDUM FOR DAVID L. CHEW
STAFF SECRETARY

FROM: FRED F. FIELDING *Orig. signed by FFF*
COUNSEL TO THE PRESIDENT

SUBJECT: Letters to Congress Regarding Copper

Counsel's Office has reviewed the proposed letters to Congress, advising that the President has decided not to undertake to negotiate voluntary production restraint agreements with foreign copper-producing countries. I have no objection to the substance of the decision or to advising Congress of it at this time, well in advance of the October deadline.

I do, however, object to transmitting to Congress the internal deliberative documents used within the Executive branch in arriving at this Presidential decision. Such documents could be protected from even compelled disclosure by a claim of executive privilege. Indeed, since these documents are clearly deliberative and pre-decisional, and were prepared to offer advice concerning a decision that must be made by the President, they lie close to the core of the sort of materials protected by the privilege. We should not gratuitously release such materials, even on a "confidential basis," to Congress. Doing so creates a precedent that will cause problems when we wish not to disclose similar material in the future, and also whets the appetite of Congress for additional protected documents.

Further, I see no need to disclose the actual internal deliberative documents. There is no reason that a document supporting the decision cannot be prepared specifically for transmittal to Congress.

I would also point out that the first paragraph on page four of the draft letter will create an advisory committee subject to the various requirements of the Federal Advisory Committee Act, 5 U.S.C. App. 2. If this is not intended, the paragraph should be deleted or substantially revised to reflect a less formal monitoring process.

FFF:JGR:aea 4/23/85
cc: FFFielding/JGRoberts/Subj/Chron

THE WHITE HOUSE

WASHINGTON

April 23, 1985

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FFF:JGR:aea 4/23/85
cc: FFfielding/JGRoberts/Subj/Chron

WHITE HOUSE CORRESPONDENCE TRACKING WORKSHEET

- O - OUTGOING
- H - INTERNAL
- I - INCOMING

Date Correspondence Received (YY/MM/DD) 1 1

Name of Correspondent: Dave Chew

MI Mail Report User Codes: (A) _____ (B) _____ (C) _____

Subject: Letters to the Congress re: Copper

ROUTE TO:	ACTION	DISPOSITION		
Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Completion Date YY/MM/DD
<u>CUHOLL</u>	ORIGINATOR	<u>85104122</u>		<u>1 1</u>
	Referral Note:			
<u>CUAT18</u>	<u>R</u>	<u>85104122</u>	<u>S</u>	<u>85104123</u>
	Referral Note:			
	-	<u>1 1</u>		<u>1 1</u>
	Referral Note:			
	-	<u>1 1</u>		<u>1 1</u>
	Referral Note:			
	-	<u>1 1</u>		<u>1 1</u>
	Referral Note:			

ACTION CODES:

- A - Appropriate Action
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- Completion Date = Date of Outgoing

Comments: _____

Keep this worksheet attached to the original incoming letter.
 Send all routing updates to Central Reference (Room 75, OEOB).
 Always return completed correspondence record to Central Files.
 Refer questions about the correspondence tracking system to Central Reference, ext. 2590.

WHITE HOUSE STAFFING MEMORANDUM

DATE: 4/22/85 ACTION/CONCURRENCE/COMMENT DUE BY: 4/23/85

SUBJECT: LETTERS TO THE CONGRESS RE COPPER

	ACTION FYI			ACTION FYI	
VICE PRESIDENT	<input type="checkbox"/>	<input type="checkbox"/>	OGLESBY	<input checked="" type="checkbox"/>	<input type="checkbox"/>
REGAN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	ROLLINS	<input type="checkbox"/>	<input type="checkbox"/>
DEAVER	<input type="checkbox"/>	<input type="checkbox"/>	SPEAKES	<input type="checkbox"/>	<input checked="" type="checkbox"/>
STOCKMAN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	SVAHN	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BUCHANAN	<input type="checkbox"/>	<input type="checkbox"/>	TUTTLE	<input type="checkbox"/>	<input type="checkbox"/>
CHEW	<input type="checkbox"/> P	<input checked="" type="checkbox"/> SS	VERSTANDIG	<input type="checkbox"/>	<input type="checkbox"/>
FIELDING	<input checked="" type="checkbox"/>	<input type="checkbox"/>	WHITTLESEY	<input type="checkbox"/>	<input type="checkbox"/>
FRIEDERSDORF	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<u>RYAN</u>	<input type="checkbox"/>	<input type="checkbox"/>
HICKEY	<input type="checkbox"/>	<input type="checkbox"/>	<u>DANIELS</u>	<input type="checkbox"/>	<input type="checkbox"/>
HICKS	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
KINGON	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
McFARLANE	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

Please provide any comments/recommendations by c.o.b. tomorrow, 4/23.

Thank you.

RESPONSE:

1985 APR 22 PM 12:19

David L. Chew
Staff Secretary
Ext. 2702

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

Received S O

MAR 22 1985

April 15, 1985

MEMORANDUM FOR THE PRESIDENT

FROM : WILLIAM E. BROCK 

SUBJECT: Copper

Section 247 of the Trade and Tariff Act of 1984 conveyed the sense of Congress that you should negotiate voluntary production restraint agreements with the principal foreign copper-producing countries. This provision also called upon you to report to Congress within 12 months of enactment of this Act to explain either the results of such negotiations or why you felt it was inappropriate or unnecessary to undertake them.

In light of this provision, I instructed my staff to establish an interagency task force with the aim of examining once again the possibility of negotiating such restraints. You will recall that this possibility had been considered and rejected in the context of the determination you made on September 6, 1984 on import relief for the domestic copper industry.

The task force examined all questions relevant to the issue of voluntary production restraints and produced a report detailing its findings. Subsequently, a thorough review of this issue was conducted within the framework of the interagency Trade Policy Committee. With the exception of the Department of Interior, all agencies agreed that the Administration should not seek to negotiate voluntary production restraints with foreign copper-exporting countries. An attempt to negotiate such restraints was felt to be inadvisable for the following reasons:

1. It would be inconsistent with the overall market-oriented trade and economic policy objectives of this Administration.
2. It would incur losses to U.S. consumers substantially in excess of any gains accruing to U.S. producers.
3. Neither negotiation nor implementation of such restraint agreements appear to be feasible. The major copper-producing countries have made it clear that they are strongly opposed to such negotiations.

I urge that you approve the recommendation of the Trade Policy Committee that the Administration should not seek to negotiate voluntary production restraint agreements on copper. If you concur, I have enclosed the necessary letters to the Vice President and the Speaker of the House of Representatives advising them of this decision. Although the deadline set by Section 247 for reporting your decision is not until the end of October, Congress is already well aware of the strong opposition to the negotiation of such restraints within the Administration. Therefore, I see no benefit in delaying the communication of your decision on this issue to Congress.

Attachments

THE WHITE HOUSE

WASHINGTON

Dear Mr. Speaker: [Dear Mr. President:]

In accordance with Section 247(c)(2) of the Trade and Tariff Act of 1984, I am writing to inform you of my decision not to seek to negotiate voluntary production restraints on copper.

Section 247(b) conveyed the sense of Congress that I should negotiate "with the principal foreign copper-producing countries to conclude voluntary restraint agreements with those governments for the purpose of effecting a balanced reduction of total annual foreign copper production for a period of between three and five years. . ." In light of this provision, an interagency task force, chaired by the Office of the United States Trade Representative, was formed to take another look at the possibility of negotiating such restraints -- which had been considered, and rejected, in the context of the determination made on September 6, 1984, on import relief in accordance with Section 202(b)(1) of the Trade Act of 1974.

The task force reviewed all questions relevant to the issue of voluntary production restraints, including:

1. the consistency of voluntary production restraints with the basic policies of this Administration;
2. the situation of the U.S. copper industry;
3. the extent of subsidization or unfair trade practices in the world copper economy;
4. the probable economic effects of production restraints; and
5. the feasibility of negotiating and implementing such restraints.

A summary of the task force report along with a copy of the complete report is attached for the benefit of interested Members of Congress on a confidential basis. The report was prepared with the aim of aiding our internal review of this issue and is not for public dissemination.

Following the completion of the task force report in early March, the possibility of negotiating production restraints was carefully reviewed by the interagency Trade Policy Committee, chaired by the U.S. Trade Representative. In light of this review, I have determined that it would be inappropriate for this government to seek to negotiate voluntary production restraint agreements with the governments of the principal foreign copper-producing countries.

An attempt to negotiate such restraints would be inconsistent with the overall, market-oriented trade and economic policy objectives of this Administration. It would set an undesirable precedent in light of both our efforts to increase the responsiveness of the domestic and international economy to market forces and our continued opposition to cartels or other arrangements aimed at controlling or influencing world markets. Moreover, any effort by this government, in the context of production restraint negotiations, to give foreign producers assurances regarding the intentions of U.S. copper producers would raise serious antitrust concerns.

Efforts to raise world copper prices through the restraint of foreign production would also be inefficient and expensive for the U.S. economy; they would incur losses to U.S. consumers substantially in excess of any gains accruing to U.S. producers.

Finally, I do not believe it would be feasible either to conclude or to implement production restraint agreements. The major copper-producing countries have made it clear that they are opposed to the negotiation of such restraints -- largely because they do not feel they will be effective in improving the longer term situation in the world copper market. Moreover, past experience shows that production restraint agreements are extremely difficult to implement effectively and that any benefits from restraints tend to be eroded or reversed in the years following their termination.

While I do not believe that the negotiation of voluntary production restraints is an appropriate course of action, I remain deeply concerned about the problems facing many workers in the U.S. copper industry. In response to my directive of September 6, 1984, the Department of Labor has developed a plan for a special effort to assist workers displaced from the copper industry.

The major source of retraining and relocation assistance available to such workers is the Dislocated Worker Program under Title III of the Job Training Partnership Act (JTPA). Services are available under (a) a program of formula grants to the States, which accounts for 75 percent of Title III

funds, and (b) the remaining 25 percent or national reserve, which is available to the States on application to the Secretary. Workers may also receive training and related services in their local service delivery areas (SDAs) if they are economically disadvantaged under the terms of Title II-A of JTPA. In addition, up to ten percent of participants in local Title II-A programs need not meet the income requirement if they face special barriers in the labor market.

In addition to assistance under JTPA, copper workers may receive counseling, referral, and placement services at the local offices of the Federal-State employment service. The unemployment compensation system provides partial income replacement for qualifying workers (the vast majority of dislocated workers qualify for these benefits); for those workers who have been certified pursuant to the Trade Adjustment Assistance program, these benefits are available for as long as 18 months (if the individual is enrolled in training).

The plan developed by the Department of Labor consists of three elements. First, of the funds reserved by the Secretary under Title III of JTPA, \$2.5 million will be earmarked specifically for retraining programs to assist copper workers in heavily impacted States and localities. To assure that a maximum effort is made in the States to assist copper workers, the States will be asked to contribute an amount equivalent to twice the Federal allocation to support these projects. The source of the contribution can be State training funds, received under JTPA or other legislation, or private sector funds. In total this will amount to approximately \$7.5 million in new training and employment services for copper workers.

Second, a team of senior Department of Labor staff will be designated to work with State and local governments in the impacted areas to help establish programs of retraining, relocation, and related assistance for displaced copper workers. The heavily impacted States will be asked to identify special liaison staff to work with the DOL team.

The Federal team members will provide technical assistance to help State and local staff in the design of programs which can be of maximum assistance in enabling displaced copper workers to be placed in suitable employment. They will assist staff to make maximum and effective use of Federal resources, particularly those available under JTPA.

Third, a task force composed of industry, labor, and officials from all levels of government, chaired by the Under Secretary of Labor, will monitor these efforts and suggest ways to improve upon them.

I have directed Secretary-Designate Brock to ensure that this plan is implemented in an expeditious and effective manner.

Sincerely,

The Honorable Thomas P. O'Neill, Jr.
Speaker of the
House of Representatives
Washington, D.C. 20515

WHITE HOUSE CORRESPONDENCE TRACKING WORKSHEET

O - OUTGOING

H - INTERNAL

I - INCOMING

Date Correspondence Received (YY/MM/DD) 1/1

COPY
from ORM



Name of Correspondent: Dave Chew

MI Mail Report

User Codes: (A) _____ (B) _____ (C) _____

Subject: Letters to the Congress re: Copper

ROUTE TO:

ACTION

DISPOSITION

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Completion Date YY/MM/DD
<u>CUHOLL</u>	<u>ORIGINATOR</u>	<u>85104122</u>		<u>C 85104123</u>
	Referral Note:			
<u>CUAT18</u>	<u>D</u>	<u>85104122</u>		<u>C 85104123</u>
	Referral Note:			
<u>CUFIEL</u>	<u>S</u>	<u>85104123</u>	<u>FF</u>	<u>A 85104123</u>
	Referral Note:			
		<u>1/1</u>		<u>1/1</u>
	Referral Note:			
		<u>1/1</u>		<u>1/1</u>
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THE WHITE HOUSE

WASHINGTON

April 23, 1985

MEMORANDUM FOR DAVID L. CHEW
STAFF SECRETARY

FROM: FRED F. FIELDING Orig. signed by FFF
COUNSEL TO THE PRESIDENT

SUBJECT: Letters to Congress Regarding Copper

Counsel's Office has reviewed the proposed letters to Congress, advising that the President has decided not to undertake to negotiate voluntary production restraint agreements with foreign copper-producing countries. I have no objection to the substance of the decision or to advising Congress of it at this time, well in advance of the October deadline.

I do, however, object to transmitting to Congress the internal deliberative documents used within the Executive branch in arriving at this Presidential decision. Such documents could be protected from even compelled disclosure by a claim of executive privilege. Indeed, since these documents are clearly deliberative and pre-decisional, and were prepared to offer advice concerning a decision that must be made by the President, they lie close to the core of the sort of materials protected by the privilege. We should not gratuitously release such materials, even on a "confidential basis," to Congress. Doing so creates a precedent that will cause problems when we wish not to disclose similar material in the future, and also whets the appetite of Congress for additional protected documents.

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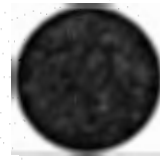
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April 23, 1985



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	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	<input type="checkbox"/>	<input type="checkbox"/>	OGLESBY	<input checked="" type="checkbox"/>	<input type="checkbox"/>
REGAN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	ROLLINS	<input type="checkbox"/>	<input type="checkbox"/>
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CHEW	<input type="checkbox"/> P	<input checked="" type="checkbox"/> SS	VERSTANDIG	<input type="checkbox"/>	<input type="checkbox"/>
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HICKEY	<input type="checkbox"/>	<input type="checkbox"/>	<u>DANIELS</u>	<input type="checkbox"/>	<input type="checkbox"/>
HICKS	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
KINGON	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
McFARLANE	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

Please provide any comments/recommendations by c.o.b. tomorrow, 4/23.
Thank you.

RESPONSE:

1985 APR 22 PM 12:19

David L. Chew
Staff Secretary
Ext. 2702

THE UNITED STATES TRADE REPRESENTATIVE

WASHINGTON

20506

Received S S

APR 22 11:11 AM '85

April 15, 1985

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1. the consistency of voluntary production restraints with the basic policies of this Administration;
2. the situation of the U.S. copper industry;
3. the extent of subsidization or unfair trade practices in the world copper economy;
4. the probable economic effects of production restraints; and
5. the feasibility of negotiating and implementing such restraints.

A summary of the task force report along with a copy of the complete report is attached for the benefit of interested Members of Congress on a confidential basis. The report was prepared with the aim of aiding our internal review of this issue and is not for public dissemination.

Following the completion of the task force report in early March, the possibility of negotiating production restraints was carefully reviewed by the interagency Trade Policy Committee, chaired by the U.S. Trade Representative. In light of this review, I have determined that it would be inappropriate for this government to seek to negotiate voluntary production restraint agreements with the governments of the principal foreign copper-producing countries.

An attempt to negotiate such restraints would be inconsistent with the overall, market-oriented trade and economic policy objectives of this Administration. It would set an undesirable precedent in light of both our efforts to increase the responsiveness of the domestic and international economy to market forces and our continued opposition to cartels or other arrangements aimed at controlling or influencing world markets. Moreover, any effort by this government, in the context of production restraint negotiations, to give foreign producers assurances regarding the intentions of U.S. copper producers would raise serious antitrust concerns.

Efforts to raise world copper prices through the restraint of foreign production would also be inefficient and expensive for the U.S. economy; they would incur losses to U.S. consumers substantially in excess of any gains accruing to U.S. producers.

Finally, I do not believe it would be feasible either to conclude or to implement production restraint agreements. The major copper-producing countries have made it clear that they are opposed to the negotiation of such restraints -- largely because they do not feel they will be effective in improving the longer term situation in the world copper market. Moreover, past experience shows that production restraint agreements are extremely difficult to implement effectively and that any benefits from restraints tend to be eroded or reversed in the years following their termination.

While I do not believe that the negotiation of voluntary production restraints is an appropriate course of action, I remain deeply concerned about the problems facing many workers in the U.S. copper industry. In response to my directive of September 6, 1984, the Department of Labor has developed a plan for a special effort to assist workers displaced from the copper industry.

The major source of retraining and relocation assistance available to such workers is the Dislocated Worker Program under Title III of the Job Training Partnership Act (JTPA). Services are available under (a) a program of formula grants to the States, which accounts for 75 percent of Title III

funds, and (b) the remaining 25 percent or national reserve, which is available to the States on application to the Secretary. Workers may also receive training and related services in their local service delivery areas (SDAs) if they are economically disadvantaged under the terms of Title II-A of JTPA. In addition, up to ten percent of participants in local Title II-A programs need not meet the income requirement if they face special barriers in the labor market.

In addition to assistance under JTPA, copper workers may receive counseling, referral, and placement services at the local offices of the Federal-State employment service. The unemployment compensation system provides partial income replacement for qualifying workers (the vast majority of dislocated workers qualify for these benefits); for those workers who have been certified pursuant to the Trade Adjustment Assistance program, these benefits are available for as long as 18 months (if the individual is enrolled in training).

The plan developed by the Department of Labor consists of three elements. First, of the funds reserved by the Secretary under Title III of JTPA, \$2.5 million will be earmarked specifically for retraining programs to assist copper workers in heavily impacted States and localities. To assure that a maximum effort is made in the States to assist copper workers, the States will be asked to contribute an amount equivalent to twice the Federal allocation to support these projects. The source of the contribution can be State training funds, received under JTPA or other legislation, or private sector funds. In total this will amount to approximately \$7.5 million in new training and employment services for copper workers.

Second, a team of senior Department of Labor staff will be designated to work with State and local governments in the impacted areas to help establish programs of retraining, relocation, and related assistance for displaced copper workers. The heavily impacted States will be asked to identify special liaison staff to work with the DOL team.

The Federal team members will provide technical assistance to help State and local staff in the design of programs which can be of maximum assistance in enabling displaced copper workers to be placed in suitable employment. They will assist staff to make maximum and effective use of Federal resources, particularly those available under JTPA.

Third, a task force composed of industry, labor, and officials from all levels of government, chaired by the Under Secretary of Labor, will monitor these efforts and suggest ways to improve upon them. .

I have directed Secretary-Designate Brock to ensure that this plan is implemented in an expeditious and effective manner.

Sincerely,

The Honorable Thomas P. O'Neill, Jr.
Speaker of the
House of Representatives
Washington, D.C. 20515

Summary Of Task Force Report

--An initiative by the USG to negotiate restraints on foreign copper production would be inconsistent with the basic thrust of this Administration's trade and commodity policy.

--Any USG efforts to secure foreign production restraints would lead to counter-requests by those foreign countries for commitments on U.S. copper production. The USG does not have any legal authority to make such commitments. Moreover, discussions with domestic copper producing firms aimed at developing production "forecasts" for use in negotiations with foreign countries could expose U.S. producers to significant risks of anti-trust liability.

--The evolution of the world copper market over the past few years has seriously injured the U.S. copper industry. Larger losses have been incurred over the past four years and most firms are in a precarious financial position. Although market fundamentals improved substantially in 1984, prices weakened further.

--If prices continue at current levels, a further severe shrinkage of U.S. copper production will likely occur. Only about 275,000 mt of U.S. production can meet breakeven costs at these price levels. However, even if the anticipated increase in prices occurs (to about 75 cents per lb), a further shrinkage of U.S. production from current levels is likely.

--The U.S. industry has made strenuous cost-cutting efforts. Although U.S. production costs are still well above those of the lowest cost producers (Chile and Zaire), they would appear, on average, to compare favorably with the costs of most other major producers.

--No significant net government subsidies by foreign governments to their copper-producing industries were found, although governments in several key producing countries were involved in the financing of the copper industry (Interior believes the situation with respect to subsidies is inconclusive and questions the net subsidy concept.)

--The role of multilateral development banks (MDBs) in financing copper projects appears to be minor. MDB financing of copper projects over the past decade has amounted to less than 5 percent of total financing of copper projects.

--Although the IMF has made large loans to major copper exporting countries in recent years (about \$3.8 billion outstanding as of 8/31/84), these loans go to the central banks of foreign governments and not to the copper-producing industries in those countries.

--Market behavior of some government owned or controlled copper enterprises appears to be significantly different from that of private sector firms and to result in maintenance of higher levels of production when prices are low.

--Copper is classified as a strategic and critical commodity vital to the national defense (U.S. stockpile policy is currently under review). The shutdowns in capacity now threatening the U.S. copper mining industry could make the U.S. more dependent on imports from outside North America.

--Econometric analysis shows that losses to consumers resulting from production restraint would substantially exceed gains to producers.

--The U.S. copper fabricating industry has indicated that it could support the negotiation of production restraints.

--Econometric analysis gives no clear cut answer as to whether or not the export earnings of participating foreign countries would increase as a result of their imposition of production restraints. Where U.S. production is "frozen", the analysis usually shows such increases occurring. On the other hand, the analysis tends to show that gains in revenue enjoyed while restraints are in place may be largely lost in the longer term.

--Any U.S. efforts to negotiate production restraints would meet strong resistance from the key copper exporting countries. Both Chile and the CIPEC Secretariat have advised the U.S. in writing of their opposition to such negotiations (see Attachments 2 and 3 to the task force report.) It seems unlikely that the U.S. could successfully negotiate such restraint agreements unless major enticements were offered (or pressures exerted) outside the copper area.

~~LIMITED OFFICIAL USE~~

Report of the Copper Task Force

Section 247 of the Trade and Tariff Act of 1984 (signed by the President on October 30) contains a sense of Congress resolution urging the President to negotiate voluntary production restraint agreements on copper. It also calls for the President to report to Congress within a year on either the results of such negotiations or the reasons why he felt it was inappropriate or unnecessary to undertake this course of action. In view of the enactment of this resolution, Ambassador Brock directed that the interagency task force formed to handle the 201 complaint be reconvened with the aim of objectively reviewing the possibility of negotiating such agreements. The initiation of this review was not meant to imply any commitment to negotiate such agreements.

The option of pursuing some sort of voluntary production restraint arrangement was, of course, considered and rejected by the President in making his determination on the Section 201 complaint. The task force reviewed both the arguments made and the data developed in preparation for the President's decision as well as new facts or factors arising since the September 6 decision. The task force concentrated its efforts on fact-finding and analyses; therefore, this report contains no specific recommendations for USG actions.

The major areas covered by the Task Force were:

1. Consistency of voluntary production restraints with the basic policies of the Administration.
2. The situation of the U.S. copper industry.
3. The extent of subsidization or unfair trade practices in the world copper economy.
4. The strategic importance of copper.
5. The probable economic effects of production restraints.
6. The feasibility of negotiating and implementing such restraints.

The findings of the task force with respect to each of these areas are elaborated below:

A. Policy Considerations

The basic thrust of this Administration's economic and trade policy is to reduce the role of government and to encourage greater reliance on the market. While exceptions have been made to this policy, an initiative by the USG to negotiate restraints on copper production in the major copper exporting countries

would, nonetheless, be inconsistent with it. In the area of trade policy, it would run counter to our efforts to persuade other countries to place more reliance on market forces and to reduce government intervention in the world market place. With respect to commodity policy, this Administration has made it clear that we have serious doubts about the value or effectiveness of attempts to "stabilize" market prices through international commodity agreements. While we have demonstrated a willingness to consider continued participation in those agreements in which we are already members (coffee, sugar, and rubber), we have also made clear that we have a strong presumption against entering into any other agreements which contain market-stabilizing features.

The U.S. copper industry (and the Congress) have not, of course, suggested that we negotiate a formal commodity agreement. Instead, they envisage a less formal, temporary arrangement employing the mechanism of voluntary production restraints to attain the same objective (price stabilization or price support) as an international commodity agreement -- at least over the next few years.

Finally, we should recognize that any United States Government effort to secure foreign commitments regarding production restraints will inevitably lead to counter-requests by those foreign countries for commitments on United States copper production. Acceding to such requests would take any arrangement well beyond previous VRAs, which involved only restrictions on exports to the United States by foreign producers. Rather, such an arrangement would mean actual involvement (however informal or indirect) of the United States industry in a worldwide agreement to reduce production in order to raise prices. We do not have any legal authority for the United States Government to make such commitments (or, more specifically, to impose any restraints on domestic copper production.) The best the United States Government could do would be to offer estimates or forecasts of what would likely be produced by the United States copper industry under various market scenarios. Such estimates would have to be developed on the basis of individual discussions with the domestic copper producing firms. Even such discussions, however, in any realistically probable scenario, would expose United States producers to significant risks of antitrust liability if the worldwide production restraints were successfully concluded.

The Interior Department has suggested the possible application of the antitrust immunity provisions of the Defense Production Act as a vehicle to immunize any participation of domestic copper producers in the production restraint arrangement. Preliminary analysis by the Justice Department has suggested that, for both substantive and procedural reasons, the use of the immunity provisions of the Act would not be appropriate. Justice is continuing its research on these issues and will present further

comments shortly.

Exceptions are, of course, made to these trade and commodity policies (Representatives of the U.S. copper industry often cite U.S. negotiation of restraints on steel imports -- or textiles or automobiles -- as a precedent for a similar effort for copper and suggest that copper could be treated as one exception among others.) Three reasons are frequently advanced as warranting a departure from basic Administration trade and commodity policies in the case of copper:

1. The seriousness of the injury to the domestic copper industry resulting from low world copper prices.
2. Trade in copper is not "free" but rather greatly distorted by the important role played by governments and the international financial institutions (IFI's) in foreign copper production.
3. The strategic importance of U.S. copper production.

These issues are examined in subsequent sections.

B. The Situation of the U.S. Copper Industry

The grave injury caused to the U.S. copper industry by the evolution of the copper market over the past few years cannot be disputed. The USITC found the industry to be injured in June 1984 and the situation has worsened since then. If the market conditions that prevailed throughout 1984 persist much longer, a further severe shrinkage of the U.S. copper-producing industry will likely occur.

A few facts will serve to illustrate the depressed state of the U.S. copper industry in recent years (which was thoroughly documented in both the USITC report and the earlier 201 task force report.)

--U.S. mine production of copper fell from 1.5 million mt in 1981 to an estimated 1.05 million mt in 1984. Capacity utilization is now only about 60 percent.

--Employment in the copper mining industry has dropped from 28,000 in 1979 to an estimated 13,000 in 1984 and further decreases are expected (In part, this decline is due to productivity gains.)

--The U.S. copper industry has suffered major losses over the last three years: \$410 million in 1981; \$1,154 million in 1982; and \$605 million in 1983; Losses in 1984 are thought to have been even larger than 1983. Confidential discussions indicated that 1984 losses for five out of the nine U.S. copper firms totaled over \$500 million.

The world price of copper fell from an annual average price of \$1.01/lb. in 1980 to an average annual price of 65 cent/lb. in 1984, as a result of increasing supplies of copper from foreign producers and a decline in copper demand caused by the recent worldwide economic recession. Nineteen mines have closed since 1981. The total capacity for those mines was 504,000 metric tons. An estimated additional 300,000 metric tons of mine capacity was placed in shut-in status during 1984, i.e., existing production capacity was not utilized. Lost domestic mine capacity thus totaled 804,000 metric tons in 1984. Regionally, Arizona absorbs an estimated 53 percent of the loss, Utah 20 percent, Montana 12 percent and Michigan 9 percent. Tennessee, Idaho, Nevada, and New Mexico absorb smaller losses. Both smelter and refinery capacity also declined between 1981 and 1984. Eight smelters were closed with a capacity of 699,000 mt and eight refiners with a capacity of 775,000 mt.

Attachment I describes in detail the mine closures and other cutbacks in production and employment that have occurred over the past few years.

At the time of the President's decision on the 201 case, most market analysts predicted that copper prices would rise significantly in the fall of 1984; this increase did not occur. Instead, between the President's decision and the end of the year, the price of copper in the U.S. declined by 6 1/2 percent. The average copper price for 1984, was about 15 percent below the 1983 average price and 39 percent below the 1979 average. The 1984 year end price of about 60 cents/pound was 20 percent below the 1983 year end price.

While prices failed to improve in 1984, the fundamentals of the market pointed, and continue to point, in the direction of a recovery. World copper consumption was strong in 1984, increasing by 6 percent. (In contrast, world mine production increased by only about 2 percent.) World stock levels fell by nearly 450,000 mt in 1984. Among the reasons cited for the continuing failure of the copper market to respond to these changes in market fundamentals are: the strength of the dollar, the willingness of most countries to continue to produce at high levels even at the very low dollar prices prevailing in 1984, the threat of further expansion in Chilean copper mine capacity, the fact that stocks still remain above "normal" levels, particularly in the United States, and the widespread availability of unused or underutilized copper production capacity.

Nevertheless, it is still reasonable to expect an increase in copper prices both because of the improvement in fundamentals and because current prices are not viable in the longer-term

for most of world production -- they are below the production costs of nearly all major producers except Chile and Zaire even after allowing for progress in cost reduction in the U.S. and elsewhere. The market outlook for copper over the next few years will, of course, be heavily influenced by the rate of world and U.S. economic growth. Economic forecasts generally indicate continuing world economic expansion over the next few years and moderate U.S. growth in 1985. Given these prospects, copper prices are expected to increase 5 to 10 percent during 1985 or into the 65-70 cents/pound range. If world economic expansion continues in 1986, prices of about 75 cents/pound are anticipated. Given expected production increases, however, (particularly in Chile, where an increase in CODELCO's production capacity from 1.0 to 1.6 million mt is planned by the end of this decade), it would appear that downward pressure on prices will generally be maintained and that prices are unlikely to rise much further for any prolonged period. World consumption increases through 1999 have been forecast at about 125,000 to 150,000 mt/year. Production increases are seen as having potential to match or even exceed this growth.

The above forecasts should, of course, be viewed with great caution. The copper market has, in recent years, consistently defied the optimistic prognostications of experienced market analysts. Whether the price recovery will come soon enough and be sufficiently strong to prevent further massive dislocations in the U.S. copper industry must remain a major question mark and seems unlikely in the view of some analysts.

The approximately 1 million metric tons of U.S. mined copper production in each of the last three years have been sold at average prices which were less than average costs. Of the 1 million mt produced domestically during 1984, approximately 100,000 mt were produced at a profit and another 175,000 mt at breakeven cost. Were prices to remain at end-of-1984 levels, one would expect U.S. mine production to contract to an economic production level of about 275,000 mt/year. Assuming price increases to about 75 cents/pound, U.S. economic production could be maintained at 800,000 mt/year. Thus, even under what appears to be generally favorable conditions of world economic growth, it is estimated that the equilibrium point for U.S. copper mine production will be at production levels 20 percent less than current levels. If current prices were to persist, U.S. mine production could decline by more than 70 percent from current levels. (Note: The above analysis takes into account depreciation costs and profit and, thus, differs somewhat from the estimate shown in Table 3.)

The above analysis is, of course, based on an abstract comparison of industry costs and possible price levels. The length of time that such prices would have to continue in order to effect further shrinkage of the U.S. industry is uncertain. But the

current financial situation of most of the U.S. copper industry is so precarious that dramatic reductions in copper production could take place in the near future. The bankruptcy of a major copper firm appears to be a possibility. In addition, divestiture of major copper holdings by parent companies could occur. Four of the major copper firms now operating in the U.S. are owned by oil companies (Anaconda, Duval, Cyprus Bagdad, and Kennecott.) Except in the case of Kennecott, the parents of these companies have announced their desire to sell those properties.

In reviewing the situation of the U.S. industry, attention should be devoted to its considerable efforts to cut costs over the past few years. Kennecott, for example, indicated that, in terms of 1984 dollars, production costs in its three mining properties have been reduced by 40-60 percent since 1975. During 1984, most U.S. copper companies reduced their labor and overhead costs through employee and management layoffs and wage cuts. They continued at an accelerated pace production cost reduction programs begun in 1981, which reduced their cash costs to a 1984 average of 65 cents/pound. These costs do not include depreciation and profit charges, which as a rule of thumb, average 5 cents/pound. Thus, with by-product credits, average full-cost production in the U.S. during 1984 was approximately 70 cents/pound. The decline in costs was substantial given the inflation since 1981 and the fact that by-product credits were 8 cents/pound less in 1984 than in 1981. These data indicate that the U.S. industry has made major efforts to become competitive with the lower-cost world copper producers. Tables 2 and 3, prepared by the Bureau of Mines, detail the changes in costs over the past four years and outline the current cost structure of the industry.

While it appears that the cost reductions achieved by U.S. industry in recent years can basically be maintained, further significant cuts in costs will probably depend on major new investments -- a questionable development in light of the depressed market situation. Industry success in negotiating reduced wage/benefit packages with U.S. workers could also yield some important cost reductions.

The reduction in the average U.S. production costs has been accomplished both through positive cost-cutting programs and through the closure of less productive facilities. Although U.S. production costs are still well above those of the lowest cost producers such as Chile and Zaire, they would, on average, appear to compare favorably with the costs of most other major producers -- e.g., Australia, Canada, Peru, the Philippines, and Zambia. A weakening of the dollar would, of course, further strengthen the U.S. competitive position. On the other hand, further devaluations by LDC producers for general BOP reasons could make them more competitive. Changes in by-product prices could also significantly alter competitiveness -- e.g., much

of the strength of Zaire's current competitive position on copper is due to increased cobalt prices. In sum, while U.S. costs will almost surely remain well above those of Chile, there is nothing inherent in the international cost structure that permits us to predict with certainty whether further adjustments in supply should come largely at the expense of U.S. industry or of other producers at the mid to high end of the international production cost scale.

C. Subsidies and Unfair Trade Practices

As part of its case for import relief, the U.S. copper industry has complained about the "unfair" or "economically irrational" practices of foreign copper producers and the "subsidization" of these producers by the International Financial Institutions (IFI's) -- both the multilateral development banks (MDB's) and the IMF. In treating these allegations in the context of the 201 investigation, three questions were addressed:

1. Do the copper industries in the major foreign producing countries benefit from government subsidies that give them a significant advantage over U.S. producers?
2. Do IFI programs affect the production policies of foreign copper industries in such a way as to disadvantage the U.S. copper industry?
3. Are the production policies of the state-controlled or owned copper producers in foreign countries significantly different from those of the private sector? If so, do they unfairly disadvantage the latter?

The conclusions reached in that investigation are outlined and reviewed below.

With respect to the first question, no significant net government subsidies were found. In the case of Chile, it was noted that the copper industry is clearly a large net contributor to the government; in 1983 Codelco paid an estimated \$675 million to the Government of Chile in the form of dividends and taxes.

A more recent and more detailed examination of the subsidy question by Treasury generally supports this conclusion. Treasury examined net subsidies to the copper mining industries of Chile, Indonesia, Mexico, Peru, the Philippines, Zaire and Zambia, attempting to weigh financial and technical assistance provided by governments to domestic copper industries against the burdens imposed on those industries (e.g., taxes, special payments, and required provisions of services.) They concluded that, while there may be modest economic assistance through the tax system, favorable

investment policies, and technical and financial assistance, these benefits are nearly always offset over time by financial burdens placed on copper mining in such countries to contribute to the general welfare of the country or the overall operations of the government. (A combination of managerial neglect and the burdens placed on copper producers, particularly in the African countries, have sometimes resulted in decapitalization and, over time, reduced production capability.) Nevertheless, government infusions of capital into those industries during times of low prices may in some cases be instrumental in preventing shutdowns of some mines. Even though this subsidy may be recovered in the long run, it would still give those mines a distinct advantage at a very critical time.

Interior believes that the situation with respect to subsidies is inconclusive. They question the "net subsidy" concept on the basis that it subjectively assigns certain costs of doing business by foreign industry as costs to meet social burdens, a process that has the effect of arithmetically cancelling out assistance from their government and international lending institutions.

While the task force's basic conclusion is that identifiable government subsidies do not in themselves appear to be significant, there are a few question marks.

- The Treasury paper shows that the governments of most of the countries, including Chile, are involved in the financing of the copper industry -- sometimes through loans, sometimes through equity. Chilean investment in Codelco could presumably be regarded as a sound business investment but, in the case of Zaire, Zambia, and the Philippines, it appears that some financing has been provided without requiring a reasonable rate of return.
- Even if "subsidies" and "burdens" cancel each other out over a period of years that does not necessarily mean that the effect of government intervention is neutral. Provision of loans or equity financing in depressed market situations may enable production to be maintained at a significantly higher level than would otherwise be the case.

It should be noted that the fact that the U.S. industry did not make use of U.S. trade laws governing countervailing duties would also seem to indicate that foreign practices in copper mining are not countervailable under U.S. law.

The second question involved consideration of the programs both of the MDB's and the IMF's Compensatory Financing Facility (CFF). The 201 task force report deemed the role played by MDB's in financing LDC copper projects to be minor and not an important

contributor to the world copper supply. MDB financing of copper projects over the past decade has amounted to less than 5 percent of total financing of copper projects. Since 1977, MDB's have participated in a total of 9 copper project loans to LDC copper exporters which will result in estimated additions to annual capacity of about 244,000 metric tons by 1989, or about 3 percent of 1983 world copper output. The presence of MDB's in these projects appears to provide an implicit benefit, encouraging private sector financing which might otherwise stay away from the project.

MDB financing of mineral projects is generally done in conjunction with funds from other sources. The presence of the MDBs, particularly the World Bank, gives the projects an aura of safety against nationalization. In this context, recent MDB funding probably has enabled countries such as Zaire and Zambia to attract new capital and surmount the adverse effects of a spate of hard currency allocation and decapitalization policies pursued during periods of depressed prices. Equally important in Zaire, the MDB presence helped to restore confidence in the viability of Zairean copper mining after the 1978 Shaba I and 1979 Shaba II incursions by Zairean rebels. The 1983 IDB loan to Chile, on the other hand, was transferred to Codelco as a contribution to capital in the form of equity.

IMF loans, including those under its Compensatory Finance Facility (CFF), assist countries in correcting their temporary balance-of-payments difficulties. Outstanding loans to seven major copper exporting countries (Chile, Peru, the Philippines, South Africa, Zaire, Zambia and Zimbabwe) totaled about \$3.8 billion as of 8/31/84, about half of which were CFF loans. Countries are entitled to CFF loans if the total value of merchandise exports falls short of its trend growth, but for these countries copper often is a leading cause of such fluctuations in total exports. The sharp declines in earnings from copper exports over the past few years have resulted, for the most part, from the drop in prices rather than from any decrease in the quantities exported.

An important factor in considering a petition for a CFF loan for an export earnings shortfall is that the shortfall must be beyond the control of the petitioning government. Thus, a country would not qualify if it curtailed exports to build inventories. Moreover, all of these funds are loaned directly to the central banks of the borrowing countries to finance any of a wide variety of international payments. None of the proceeds of these loans are transferred to the copper-producing industries in those countries. The IMF sets the interest rate charged on its CFF loans somewhat below market rates; currently the rate is 7 percent. Loans must be repaid over a 3-5 year term, sooner if the country's balance of payments and reserve positions improve.

With respect to the third question, the 201 report found good

reason to believe that the market behavior of some government-owned or controlled copper enterprises is significantly different from that of private sector firms. Some government-influenced firms appear to maintain production at higher levels when prices are low than do their private sector counterparts.

Para-statals in Zambia and Zaire are clearly influenced by governmental commitments to maintain high production levels so as to maximize foreign exchange earnings and employment. This influence has been a mixed blessing with respect to its impact on production levels. In both countries, decapitalization of the mining industry has occurred and, as noted earlier, they have had difficulty in maintaining production levels (Zambia's production has declined significantly).

The case of Codelco in Chile is less clear because its low production costs and the efficiency of its operation tend to undermine any suspicion of "uneconomic" behavior. Even here, however, it would appear that the institutional framework within which Codelco functions causes it to act as a revenue rather than a profit maximizer. The inflexibility of its payment schedule to the Chilean government (which is fixed in advance of actual earnings) would seem to provide a strong stimulus for Codelco to keep production high regardless of market conditions. In addition, Codelco has plans for substantial capacity expansion and expects to keep that capacity fully employed. Nevertheless, its production costs were amply covered even by the low prices of the 1982 - 1984 period. (Production at prices below average cost is not necessarily economically "irrational" -- given the existence of fixed costs, it can be a loss-minimizing strategy. In recent years, the U.S. industry has produced the bulk of its copper at average costs which exceed prices.)

The impact of the emergence of the para-statals has been reinforced by the decreasing concentration of the copper industry. In 1960, 12 firms, all in the private sector, controlled 84 percent of western world copper output; today, the 12 top enterprises (including para-statals) control only 49 percent of output.

Table 4 compares production in the major copper-producing countries over the 1979-84 period. Between 1979 and 1984, annual world copper mine production in the market economy countries increased by several hundred thousand tons. Production in the centrally-planned countries, for which data is questionable, steadily increased. Refined consumption, on the other hand, fell by about 1 million mt per annum between 1979 and 1982, but has since increased by about 800,000 mt.

Against this backdrop, we see a diversity of production trends. U.S. production shows the only clear response to the decline in prices, falling by nearly 400,000 mt in 1982 and an additional 100,000 mt in 1983. In total, U.S. production fell by nearly

one-third between 1979 and 1983. Canadian production was also down in 1982 and 1983 but, surprisingly, increased in 1984 almost to peak 1980 levels. There was a fairly steady decline in Zambia (8 percent between 1979 to 1984), reflecting the longer term trend in that country. Peru and the Philippines which have essentially private copper sectors, also showed a significant decline in production between 1979 and 1984.

The major increases in production over this period came from Chile (about 240,000 tons or 22 percent), Zaire (nearly 100,000 tons or 22 percent), and Mexico (about 70,000 tons or 66 percent.) It should be noted, however, that the 1979 level of production in Zaire was abnormally low as a result of the invasion of Shaba by insurgents from Angola. More modest increases were registered in Australia and South Africa, where by-product credits are of major importance. A substantial production increase (165,000 mt in aggregate) was also registered by the smaller market economy producers.

At least at the outset of the recent recession, average production costs in the U.S. tended towards the higher end of the international scale -- the competitive position of the U.S. was also worsened by the major devaluations in the currencies of the key copper exporting countries. Between the third quarter of 1981 and that of 1984, the Chilean peso depreciated 145% against the dollar, the Zambian kwacha by 52%, the Zaire by 563%, and the Peruvian sol by 752%. Thus, to some extent, it was inevitable that the brunt of adjustment would fall on the U.S. industry. But an examination of average costs masks the fact that, for a significant portion of foreign industry, production costs are higher than those of certain U.S. mines and certainly higher than the level of world prices in recent years.

Tables 5 and 6, for example, estimate that production costs for much of the output of other major producers are above 70 cents/pound.

D. Strategic Considerations

Copper is classified as a strategic and critical commodity vital to the national defense. It has also been designated as one of five "Controlled Materials" whose central management has been essential to past mobilization efforts.

Copper has numerous direct defense uses. It is used in ammunition and shell casings, and copper wire is a critical component of all communication and control systems, and advanced weapon systems. Copper and brass components are used extensively in all forms of military transportation, and waterborne weapons systems. While these direct uses are vital to any defense effort, they are relatively small when compared to the quantity of copper used by the civilian economy. These uses include electrical

transmission, communication, transportation, and capital goods.

The shutdowns in capacity which are now threatening the U.S. copper mining industry could not be easily reversed in the short-term and could make the U.S. more dependent on imports from outside North America. Such an eventuality would need to be taken into account in formulating U.S. policy regarding strategic materials. (That policy is now under review.)

E. Economic Impact of Production Restraints

The economic implications of negotiated production restraints were examined as part of the 201 investigation along with the estimated impact of quotas and tariffs. In attempting to assay these implications, the task force utilized an econometric model developed internally; in addition, it examined available outside analysis -- in particular, that submitted by interested parties in the course of the 201 procedure. The two hypotheses most often employed in that examination were a 5-year 200,000 mt annual cutback by the CIPEC-4 (Chile, Peru, Zambia, and Zaire) and a 5-year 300,000 mt annual cutback by that group of countries. Variations on these hypotheses were introduced by assuming either a "freeze" on U.S. production or no restraint on U.S. supply response.

In re-examining the impact of production restraints, the internal model was revised somewhat on the basis of more recent data available and, in addition, a number of new hypotheses were used -- e.g., freezes in CIPEC-4 production and a 2 or 3-year time period of restraint (rather than a 5-year period.) The recent suggestion of Kennecott that a cut of 12 percent (300,000 mt) by the CIPEC-4 over a 3-year period would bring supply and demand into equilibrium was explicitly incorporated into the analysis. In all cases, the internal model generated results over a 5-year period.

In all the cases analyzed, world copper prices increased as a result of the production restraints. Depending on the assumption postulated -- particularly with regard to U.S. production, the extent of the cutbacks, and the length of time they were applied, however, the average increase in price over the 5-year period varied widely. As would be expected, the smallest increases (only 1-2 percent) occurred when the cutbacks or freeze applied for only two years and U.S. supply was unrestricted. The largest increases (25-30 percent) occurred when the restraints were imposed for five years and U.S. production was also frozen over that period. Kennecott has estimated that a 3-year 300,000 mt cutback in production would raise world prices by 15 cts/lb. Most of the other analyses available show copper prices increasing by 7-17 cts/lb as a result of 200 - 300,000 mt cutbacks by the CIPEC-4.

The impact on jobs and production in the U.S. industry shown by the internal model was small. Job gain did not exceed 1300 under any of the scenarios examined and, in fact, where a freeze in U.S. mine production was postulated, the model showed net losses of U.S. jobs.

Losses to consumers (measured by changes in consumer surplus) substantially exceeded gains to producers (measured by changes in producer surplus) under all of the hypotheses examined. In those cases where the greatest gains were registered by producers, net losses to the U.S. economy (consumer minus producer surplus) totaled over \$3 billion over the 5-year period. Under those scenarios where U.S. jobs were created, cost per job gained was high - usually about \$250,000.

These estimates indicate that production cutbacks by leading copper producers would be inefficient and expensive for the U.S. economy. If, however, large parts of the U.S. copper industry are on the verge of going out of production, the production and employment effects of successful production restraints could be much more significant. The potential imbalance between producer gains and consumer losses might, thus, be significantly less (although costs to consumers would still substantially exceed the gains to producers).

The attitude of the copper fabricating industry is of some relevance in considering the question of consumer impact. Spokesmen for that industry, while adamantly rejecting any sort of quota or tariff, have made it clear that they could accept, or even support, negotiated production restraints. The main reason for this position is that, since the price rise from cutbacks would affect all countries, U.S. fabricators would not be disadvantaged against their foreign competitors. The fabricators also would appear to believe that given the extremely low current level of copper prices, a significant increase in copper prices could be absorbed without impairing the competitiveness of copper products.

A major point of uncertainty is the probable impact of production restraints on the export earnings of the countries participating in such restraints. Representatives of the U.S. copper industry (and economists employed by them) have argued that restraints would increase the export earnings of even those countries participating. Economists employed by CODELCO and other foreign producers have come up with a contrary conclusion.

The investigation of the 201 task force disclosed that alternative methods produced widely differing estimates of changes in export earnings. This was, of course, due to differing predictions as to the price impact of the restraints. The internal econometric model used in that exercise estimated that, with a 300,000 mt cutback over a 5-year period, the LME price would average 13 cents a pound higher (about 15-20 percent) than with no production

cut. Another estimate, using the Takeuchi formula (and higher demand and supply elasticities), indicated a 10-15 percent increase in price. This difference in price effects was critical in determining whether production restraints would cause an increase or decrease in export earnings. The 15-20 percent price increase, when combined with the lower quantity of exports, resulted in an increase in earnings, while the 10-15 percent price rise resulted in a decrease in earnings. The first model showed production cuts yielding a \$170 million increase per year in the export earnings of the CIPEC 4; the second showed a \$180 million decrease.

The results obtained using the revised model and a greater number of restraint variations may be summarized as follows:

1. In all cases where U.S. production is "frozen", the CIPEC-4 export revenues rise substantially as a result of production restraints. Except in cases where restraints applied for only 2 years, U.S. revenue increases are also substantial.
2. Where U.S. production is not frozen, CIPEC-4 export revenues generally decrease. Chile and Peru, where further expansion of production is expected, are hit harder than Zaire and Zambia.
3. Where restraints are imposed for only 2-3 years, revenues both of the CIPEC-4 and the U.S. begin to go down as soon as the restraints are lifted. This suggests that the limitation of the analysis to 5 years (all that the model is capable of) is misleading and that gains in revenues enjoyed while the restraints are in place may be largely lost in the longer term.

The dispute over export revenues boils down to a question of supply and demand elasticities. Moreover, it is essentially a dispute over short-run elasticities. Most observers accept the fact that in the longer run, both supply and demand elasticities will be sufficiently high so as to erode any effort to maintain price through production restraints and that they would, in the long term, reduce the export earnings of participating countries. A related issue is whether the short-run is the relevant time-frame to use in evaluating the impact of production restraints. CIPEC economists have argued that long-run elasticities should be used.

Both demand and supply price elasticities for copper are thought to be quite low in the short-run. Everest Consulting Associates, Inc. (consultants for the 201 petitioners) used a demand elasticity of - 0.17 in making their calculations as to the effect of production restraints. This figure was the median of computed short-term elasticity values compiled by them and seems generally

reasonable and in line with the elasticities generated by the internal model. If anything, it may be on the high side. Given the very low levels of current prices, there is good reason to believe that the demand reaction to a modest price increase would be muted. The Bureau of Mines suggests that the short-run price elasticity of demand, under current circumstances, would be less than - 0.1.

With a short-run demand elasticity of - 0.17 (and given the CIPEC-4's market share of 37 percent), the non-CIPEC-4 supply elasticity must be below 0.25 for the production cutback to increase CIPEC-4 export earnings. (If, of course, the demand elasticity were significantly lower, then a significantly greater non-CIPEC supply response could be permitted. Similarly, if a larger number of countries were covered by production restraint agreements, such restraints would more readily work to the benefit of those countries participating.) Everest Associates found most computed supply elasticities to fall between 0.1 and 0.3; they used 0.2 as the most representative value. While this estimate seems reasonable, there is a great deal of uncertainty regarding supply elasticities. Given excess capacity in the United States and in a number of other countries, the elasticity of supply for those areas could be considerably higher. The internal model, for example, generated an elasticity of supply of .43 for the U.S. Allowance for the higher short-run supply elasticity, for "secondary" copper, which represents 15 percent of the market, might also generate a greater overall supply response.

The reaction of U.S. producers to production cutbacks would appear to be a decisive factor in determining the effectiveness of such restraints. Kennecott estimates that breakeven production costs of shut down facilities are 80 cents/pound or higher and argues that the modest price increases likely to result from production restraints would not be enough to cause a reopening of U.S. mines. Some U.S. mines are, however, operating at reduced levels (rather than being totally shut down), and even a small increase in price might suffice to raise capacity utilization rates in those units.

If U.S. supply response was minimal -- either for policy reasons or because the price increase generated by cutbacks was not sufficient to cause resumption of idle U.S. production, the likelihood of such restraints being effective would be much greater. However, even under those circumstances, it could not be regarded as sure thing. As indicated earlier, producers outside of CIPEC and the U.S. have accounted for a substantial increase in copper production over the past five years and such increases are likely to continue.

Given the uncertainties surrounding elasticity analysis and computation and the shortcomings of the models available, econometric

analysis can give no clearcut answer as to whether or not the export earnings of the CIPEC-4 would increase as a result of their imposition of production restraints. On econometric grounds alone, the possibility that increases in export revenues could result from such restraints cannot be ruled out. On the other hand, the econometric evidence in support of a conclusion of increased revenues depends heavily on the questionable assumption that U.S. production will not increase and is marred by too short a time horizon. The apparent lack of enthusiasm for the CIPEC-4 countries for such restraints indicates that most of these countries do not believe that such benefits would occur.

E. Feasibility of Negotiating Restraints

The foregoing section on economic impact begs two major questions: Could such restraints be negotiated? If so, could they be effectively implemented?

Any U.S. effort to negotiate production restraints would meet strong initial resistance from the CIPEC -4 countries -- especially Chile. The economies of all four CIPEC "majors," Chile, Peru, Zaire and Zambia, are characterized by serious external debt problems, depressed domestic demand, high unemployment, and internal budget deficits. This situation poses a major threat to stability in all four countries. Under these circumstances, they are likely to be extremely sensitive to any perceived U.S. intervention in their economies -- no matter how altruistically packaged. The fact that acquiescence in a production restraint arrangement would (presumably) tend to result in reduced employment would only serve to heighten this sensitivity.

In the interest of clarifying Chile's position (and because of rumors in the U.S. industry that this position had changed), USTR contacted the Chilean Embassy in Washington. The Chileans made it clear that their position has not changed. They remain opposed to restraints on copper production. Their written response on this point, which the Embassy indicated had been cleared with Santiago, is shown as Attachment II.

USTR also received an unsolicited letter from the Secretary General of CIPEC (Attachment III), advising us that "from a CIPEC point of view such negotiations, which could be particularly directed against four of our members -- Chile, Peru, Zaire, and Zambia -- do not appear to be an appropriate remedy for the difficulties of the U.S. domestic copper industry." This document has been ratified by CIPEC's Executive Committee as representing the views of the member countries of CIPEC.

There is some evidence that several CIPEC members might be favorably disposed towards production restraint arrangements. Both Peru and Zambia have called for such cutbacks in the past and, more recently, the Philippines urged the U.S. to take an active role

in initiating production restraint negotiations. These countries tend to be the higher cost producers and, moreover, their production has declined in recent years. They would more than likely feel that an "equitable" allocation of production cuts would entail significant cuts by Chile and maintenance of the status quo on their part. However, given the firm attitude of Chile on this question, its dominant position in the market, and the mutual suspicion of other foreign producers, it seems unlikely that the U.S. could successfully negotiate such restraint arrangements unless major enticements were offered (or pressures exerted) outside the copper area.

Even if negotiations were successfully concluded, implementation would pose a major problem. Restraints on production or exports would be difficult to monitor and there would be no penalties for evading the rules. The failure of previous CIPEC efforts is instructive in this regard.

Toward the end of 1974, as copper prices began to decline, CIPEC agreed to cut member country exports by 10 percent. This was followed rapidly by a decision to cut member country production by 15 percent. Production statistics for this time period indicate that none of the CIPEC countries complied fully with their joint decision. By November 1975, the Members agreed to end these fictional production cuts. Since that time, CIPEC as an organization has not taken any serious steps to influence the copper market.

CIPEC's past failure to improve market stability has been attributed to a number of factors:

- strong political differences among member countries, particularly in the aftermath of the coup in Chile in 1973 which ousted Salvador Allende. These political differences were particularly acute between the Governments of Zambia and Chile, the two leading CIPEC members at the time;
- CIPEC's organizational weakness;
- High rates of production in many countries outside CIPEC; also, many mines in the U.S. and Canada were closed or operating at reduced capacity and were perceived as being in a position to fill any gap in production.
- high inventory levels;
- Producing countries were economically weak and dependent on copper for most of their foreign exchange earnings. Most CIPEC members' international currency reserves were very weak and most believed that cutbacks in production would hurt their export revenues significantly without generating large price increases.

In 1985, the CIPEC producers probably see few changes in the underlying market, economic, or political factors which were responsible in varying degrees for their failure 10 years ago. They still have major political differences. They only control a marginally greater share of mine production; they believe supply and demand are fairly elastic in the medium to long term; they are worried about inroads by substitutes, particularly in the telecommunications industry; and most producers face precarious economic conditions, perhaps worse than in 1975.

Table 1

Copper Prices, Demand and Supply, 1979-1984: United States and World
Year

	1979	1980	1981	1982	1983	1984 ^e
Prices (¢/lb. cathode)						
Domestic Delivered	92.20	101.31	84.21	72.80	76.53	66.0
LME (High Grade)	90.07	99.25	79.00	67.14	72.13	63.0
Consumption (1000 mt)						
United States	2432	2175	2278	1760	2020	2100
World	10338	9954	10065	9344	9625	10180
Production (1000 mt)						
U.S. - Refined	2013	1726	2038	1695	1583	1530
- Mined	1447	1181	1538	1147	1038	1050
World - Refined	9020	9103	9441	9224	9445	9450
- Mined	7690	7739	8191	8072	8044	8200
Stocks (1000 mt)						
United States	252	314	485	696	692	550
(weeks consumption)	(5.4)	(7.5)	(11.1)	(20.6)	(17.8)	(13.6)
World	1130	1040	1116	1597	1667	1223
(weeks consumption)	(5.7)	(5.4)	(5.8)	(8.9)	(9.0)	(6.2)
U.S. Imports (1000 mt)						
Total	289	554	438	513	654	540
From Chile	116	127	138	233	292	138
Mine Capacity (1000 mt)						
United States	1840	1835	1730	1750	1780	1760
(Operating Rate)	(78%)	(64%)	(89%)	(65%)	(58%)	(60%)
Rest of World	7890	8215	7790	7990	8510	8560
(Operating Rate)	(79%)	(79%)	(85%)	(85%)	(82%)	(83%)

^eEstimated

Source: U.S. Bureau of Mines

Table 2

Cash production costs for major producing U.S. copper mines¹

Production costs \$/lb Cu	1981	1982	1983	1984	Long Run ²
Mine op cost	\$0.32	\$0.26	\$0.22	\$0.20	\$0.26
Mill - Float op. cost	.27	.24	.24	.23	.22
Mill - leach op. cost	.08	.09	.07	.07	.05
Smelt/Refine/Trans- portation	.28	.28	.26	.24	.24
Taxes ³	.03	.03	.03	.02	.03
Total cost	.98	.90	.82	.76	.80
Byproduct credits	(.19)	(.13)	.13)	(.11)	(.11)
Cash Cost ⁴	.79	.77	.69	.65	.69
Production ⁵ , 1000mt Cu	1,238	897	932	1,002 ^e	1,364

^e - estimated

U.S. Bureau of Mines, Minerals Availability

¹ Includes 16 mines most of which were producing from 1981-1984. However, capacities for many of the mines were greatly reduced from 1982-1984. Costs are in current dollars for 1981-84; in constant 1984 dollars for long run estimates.

² Long run costs include depreciation allowances to sustain production.

³ Property and severance taxes and royalties, if applicable.

⁴ Includes all cash costs of production and credit for byproducts but excludes depreciation and profit (except long run column). Costs are in actual dollars for each year shown.

⁵ Based on the production of the 16 mines analyzed. "Long Run" production is estimated full capacity level.

Table 3Estimated capacity levels and reserves for selected U.S. copper mines by 1984 costs¹

Cost Range ²	Incremental Capacity 1000 MT/Yr	Cumulative Capacity	Ore Reserves 1000 MT Metal ³
Less than \$0.60	273	273	4,805
0.60 - 0.65	284	557	6,236
0.66 - 0.70	416	973	11,175
0.71 - 0.75	73	1,046	1,524
0.76 - 0.80	-	1,046	-
0.81 - 0.85	258	1,304	6,493
0.86 - 0.90	-	1,304	-
0.91 - 1.00	60	1,364	469
Total	1,364		30,703

U.S. Bureau of Mines, Minerals Availability

¹Based on 16 mines.

²Includes all costs of production and credit for byproducts but does not include depreciation and profit. Costs are in constant 1984 dollars.

³ Recoverable copper.

TABLE 4
COPPER MINE PRODUCTION
(Metal content, 1,000 metric tons)

	Year					
	1979	1980	1981	1982	1983	1984 <u>e/</u>
Australia	238	244	231	245	256	250
Canada	636	716	691	612	625	712
Chile	1,063	1,068	1,081	1,241	1,257	1,300
Indonesia	60	59	63	78	79	64
Mexico	107	175	231	239	250	178
Papua New Guinea	171	147	165	170	183	164
Peru	391	367	342	369	322	370
Philippines	298	305	302	292	273	220
South Africa	191	201	209	189	220	202
United States	1,447	1,181	1,538	1,147	1,038	1,087
Zaire	430	540	555	519	535	525
Zambia	588	596	588	567	563	540
Other MEC's	527	507	549	620	639	692
Total MEC's <u>1/</u>	6,147	6,106	6,545	6,288	6,240	6,304
CPE's <u>2/</u>	1,544	1,633	1,646	1,784	1,833	1,960
World Total	7,691	7,739	8,191	8,072	8,073	8,264

e/ Estimated

1/ Market Economy Countries includes Yugoslavia.

2/ Centrally Planned Economies, includes the East European countries, USSR, China, Mongolia, Cuba, Congo Brazzaville, and North Korea. Production data for these countries is sketchy and with exception of Poland and China, they rarely trade in the world market.

Source: U.S. Bureau of Mines

Table 5

Estimated annual copper production cash costs, production and demonstrated reserves for operating mines in selected countries with cash costs less than and greater than \$0.70 per pound¹ (1000 MT)

Country	Average costs all production \$/lb.	Production ²		Reserves, recoverable copper	
		less than \$0.70/lb.	greater than \$0.70/lb.	less than \$0.70/lb.	greater than \$ 0.70/lb.
Australia	.63	181	22	5,206	227
Canada	.91	163	419	2,407	5,007
Chile	.50	1,129	30	61,225	194
Philippines	.85	142	254	2,209	5,202
Zaire	.35	565	35	15,452	1,379
Zambia	<u>.70</u>	<u>581</u>	<u>119</u>	<u>14,270</u>	<u>3,048</u>
Total		2,761	879	100,769	15,057

Bureau of Mines, Minerals Availability, 1/17/85

¹Costs are in 1984 dollars and include all cash costs of production and credit for byproducts, but do not include depreciation or profit. Estimates are derived from 1981 data. Reserves have been updated to 1984 by subtracting production at full capacity since 1981. Some of these mines have since closed, however, current production and reserve information are not available.

²Assumes full production level at indicated cost.

Table 6

Estimated annual copper production breakeven costs, production and demonstrated reserves for operating mines in selected countries with production costs less than and greater than \$0.70 per pound¹ (1000 MT)

Country	Average costs all production \$/lb.	Production ²		Reserves, recoverable copper	
		less than \$0.70/lb.	greater than \$0.70/lb.	less than \$0.70/lb.	greater than \$ 0.70/lb.
Australia	.69	163	40	4,869	564
Canada	1.00	154	428	2,365	5,049
Chile	.54	1,015	144	57,945	3,474
Philippines	.94	.71	325	752	6,659
Zaire	.40	565	35	15,452	1,379
Zambia	<u>.75</u>	<u>353</u>	<u>347</u>	<u>6,961</u>	<u>10,357</u>
Total		2,321	1,319	88,344	27,482

Bureau of Mines, Minerals Availability, 1/17/85

¹Costs are in 1984 dollars and include all cash costs of production, depreciation, and credit for byproducts, but not profit. (Costs are at breakeven level - 0 pct ROR -and provide for recovery of capital but not profit). Estimates are derived from 1981 data. Reserves have been updated to 1984 by subtracting production at full capacity since 1981. Some of these mines have since closed, however, current production and reserve information are not available.

²Assumes full production level at indicated cost.

Table 7

Employment of Mine, Mill and office workers in U.S. Copper Industry

State	Average 1979	Average 1983	Average January-June 1984
Arizona	17,209	8,315	7,895
Idaho	31	52	33
Montana	1,278	612	72
Nevada	411	25	25
New Mexico	2,433	1,053	1,142
Tennessee	491	921	946
Utah	<u>5,888</u>	<u>3,533</u>	<u>3,221</u>
Total	27,713	14,690	13,333

Employment at copper smelters and refineries averaged 9,700 workers in 1983; data for 1984 are not yet available. Total employment in the copper producing industry has declined since 1981, when 44,600 were employed, to 31,800 in 1982, and 24,400 in 1983. Although data for the second half of 1984 are not yet available, we estimate that total employment is now below 23,000. In other words, employment in the U.S. copper producing industry has fallen a little more than 50 percent in the last three-year period. Arizona, where several mines have shut down over the past three years, Montana, where the Berkeley Pit closed last year, and Utah, where production at the Bingham Canyon Mine was cut by two-thirds in July, have suffered the greatest loss of jobs.

Attachment I

SELECTED CLOSINGS, POSTPONEMENTS, LAYOFFS, AND PRODUCTION DECREASES: UNITED STATES

JUNE - JULY 1983

<u>Commodity and Company</u>	<u>Operation and/or Location</u>	<u>Action taken, Employees affected</u>	<u>Effective Date</u>	<u>Duration</u>	<u>Notes</u>
COPPER					
Anaconda Copper Co.	East Berkeley pit and concentrator, Butte, MT.	Shut down facility; 200 employees retained to close down facility; 300 workers laid off since January.	June 30.	Temporary.	Anaconda Minerals employed 1,800 workers in Butte 3 years ago. Main pit closed mid-1982.
Kennecott.	Copper refinery and rod mill, Baltimore, MD.	Refinery closing; 175 workers laid off by mid-July. Rod mill remaining open at reduced capacity.	June 30.do.....	Recently modernized 185,000-tpy continuous cast rod mill operating at reduced output to meet customer demand.
Do.....	McGill, NV.	Shut down its Nevada Mines Division; about 115 employees laid off.	July 1.	6 months.	The company has been unsuccessful in obtaining enough copper concentrate supplies for smelting.

AUGUST - SEPTEMBER 1983

Inspiration Consolidated Copper Co.	Inspiration, AZ.	Laid off 225 workers because of a lack of copper concentrate for the smelter.	August.	Indefinite.	Efforts are continuing to obtain material until January, when a Duval Corp. contract to supply Inspiration with a substantial amount of concentrate becomes effective.
Noranda Lakeshore Mines, Inc.	South of Casa Grande, AZ.	Shut down underground mine and vat leaching operation. Laid off 250 workers.	September.do.....	About 65 workers remain to operate the in situ leaching operation and the solvent-electrowinning plant.

OCTOBER - NOVEMBER 1983

ASARCO Incorporated.	Mission Mine, AZ.	Laid off 120 workers.	Sept. 30, 1983.	Indefinite.	High inventories of copper and low prices were cited as reasons for the efforts to reduce costs.
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DECEMBER 1983 - JANUARY 1984

AMAX Inc.--United States Metal Refining Co.	Carteret, N.J.	Permanently reduced secondary copper production, 375 workers laid off.			The resulting curtailment in No. 2 scrap purchases should not have a major effect on the scrap market. The facility will concentrate on specialty copper and precious metals refining.
Cyprus Bagdad Copper Co.	Cyprus Bagdad Mine, AZ.	Mine closed.			Depressed copper prices and surplus copper cited. Electrowinning plant will continue to operate.
Kennecott.	Operations in UT.	Announced layoff of 400 employees and reduction in production of 13 percent in 1984, due to low prices.			About 2,500 of the 7,300 workers employed by Kennecott in Feb. 1982 have been laid off.
Phelps Dodge Corp.	Laurel Hill, NY.	Electrolytic copper refinery shut down indefinitely.			The company's El Paso, TX, plant will process blister that was previously processed at Laurel Hill.

FEBRUARY - MARCH 1984

<u>Company and Company</u>	<u>Operation and/or Location</u>	<u>Notes</u>
COPPER		
ASARCO Incorporated.	Sacaton Mine, near Casa Grande, AZ.	Announced April shutdown of open pit mine because of import competition and low prices. Sacaton ranked 16th in output among U.S. copper mines in 1983.
Inspiration Consolidated Copper Co.	Inspiration Operations, AZ.	Laid off 95 workers. Only 2 of 3 converters are operating at smelter.
Kennecott	Utah Copper Division, UT.	Announced additional layoff of 100 workers following January announcement of 400 layoffs. The total workforce at the Utah Copper Division has been trimmed to 4,800 employees (from a peak of 7,300 in 1981).
IRON AND STEEL		
CF&I Steel Corp.	Sunrise Mine, Guernsey, WY.	Shut down blast furnaces. Mine is reportedly being allowed to flood. About 125 workers have been laid off since the mine closed in July 1980, and the remaining 15 are expected to be laid off.
U.S. Steel Corp.	Fairless Works, PA.	Announced that coke production operations will be shut down indefinitely in May with production to be shifted to the Clairton, PA, plant; 300 workers will be laid off.
	Johnstown, PA.	Announced April 1 shutdown of plant following a worker vote against a \$5-per-hour cut in wages and benefits. The plant currently employs about 325 workers, with another 350 on furlough.

APRIL - MAY 1984

Hussey Metals Co. (subsidiary of Louisiana Land & Exploration Co.)	Leedsdale, PA.	Shut down permanently. 300 workers were laid off. Hussey, a fabricator of copper and brass for the electrical, electronics, and construction industries, operated in the area for 126 years. Depressed conditions in the copper industry were cited for the closure.
Phelps Dodge Corp.	Hidalgo, NM.	Announced plans to close Hidalgo smelter for 14 weeks beginning in June for rebuilding of its flash furnace.

JUNE/JULY 1984

Kennecott	Hurley, NM.	Shut down fire refinery on account of depressed copper prices and decreased demand for fire-refined copper.
	Utah Copper Division	Reduced output of its 200,000-tpy operations by 2/3 beginning in July. The cutback took place after labor officials refused Kennecott's request to reopen negotiations on a 3-year contract ratified in mid-1983.

AUGUST/SEPTEMBER 1984

ASARCO Incorporated	Silver Bell, AZ.	Shut down open pit mine Aug. 15, idling about 170 of 243 workers. The leaching facilities will continue to operate. If the copper market improves by yearend, the mine could be reactivated in January.
Copper Range Co.	White Pine, MI.	Announced a temporary closing of its White Pine Copper Division, citing depressed copper prices, imports, and labor problems. The plant and equipment will be kept on a standby basis during the shutdown. White Pine had 188 salaried employees on its active payroll processing scrap at the firm's new electrolytic refinery. Union employees have been on strike since Aug. 1, 1983.

OCTOBER/NOVEMBER 1984

ASARCO Incorporated.	Mission Mine, Sahuarita, AZ.	Laid off 120 workers in October, prompted by the continuing slump in copper prices. About 286 hourly and 132 salaried employees remain working at the operation.
Chemetco Metal Corp.	Alton, IL	Shut down 110-tpd secondary electrolytic refinery. The low margin between scrap and refined copper prices was cited as the reason for the shutdown.

AUGUST - SEPTEMBER 1983

Commodity and Company	Operation and/or Location	Action or Event	Notes
✓ COPPER			
ASARCO Incorporated.	Silver Bell operation, AZ, and Hayden, AZ.	Restarted Silver Bell operation, effective October 1. About 195 hourly workers will be employed, compared with 240 at closing in 1981.	Full production is timed to coincide with the commission of a new INCO flash furnace in November at the Hayden smelter, which will process concentrates from Silver Bell.
Kennecott.	Ray Mines Division, AZ.	Resumed mine and mill production at or near full concentrate capacity by late August. 375 workers were recalled.	Company's smelter and electrowinning plant remain closed. 25,000 stpm of concentrate will be sold to ASARCO Incorporated for smelting at Hayden, AZ. Capacity is 823 mtpd.

FEBRUARY - MARCH 1984

ASARCO Incorporated.	Mission Unit, AZ.	Planned to recall 70 workers beginning April 1.	
Sherburne Metal Products, Inc. (subsidiary of Rome Group, Inc.).	Sherburne, NY.	Began operation of 30,000-mtpy continuous cast copper rod facility. The plant will be a major supplier of rod to Rome Cable and other independent wire mills in the area.	

APRIL - MAY 1984

Phelps Dodge Corp.	Ajo, AZ.	Restarted smelter, which had been closed since April 1982, after completion of a \$1 million repair project on the smelter's acid plant. Other repairs necessary to comply with EPA standards have been completed.	
First Valley Copper Corp. (subsidiary of Newmont Mining Corp.).	Miami, AZ.	Reopening open pit mine, with full production of 70,000 tpy of copper in concentrates expected in June. 375 workers were recalled. The reopening was made possible by a \$2-per-hour wage reduction for hourly workers for the 1st 6 months of renewed operations and by the cancellation of a high-cost toll smelting contract in January 1984.	

JUNE/JULY 1984

AmRoc Corp.	Fort Newark, NJ.	Announced plans to build a 60,000-tpy, state-of-the-art, continuous-cast copper rod mill, to be operational in 1st quarter 1985. The facility will be built by Southwire Co. and will employ the Southwire continuous rod system. Along with producing rod, the plant will provide a completely integrated, high-quality copper processing facility.	
Nippert Co. (subsidiary of Outokumpu Oy, Finland).	Delaware, OH.	Announced plans to build a 30-million-pound-per-year copper rod and wire mill, to be operational January 1985. The mill's production will replace imports from Outokumpu Oy as well as domestic purchases of materials for Nippert's copper redraw business.	
Phelps Dodge Corp.	Tyrone, NM.	Began operation of a new solvent extraction electrowinning plant, producing copper at about half the cost of more conventional copper producing methods. 25 workers are employed. The plant has a production capacity of 15,000 tpy.	

AUGUST/SEPTEMBER 1984

Chino Mines Co. (Division of Kennecott).	Hurley, NM.	Closing copper smelter from Sept. 5 to Oct. 5 to tie in new, Canadian-designed INCO flash furnace with the overall smelter environmental-control system. The state-of-the-art INCO system will improve the operating flexibility of the smelter and meet all the environmental constraints imposed on it. Total cost of the project is estimated at \$130 million, 1/3 of which is being paid by the Japanese partner, Mitsubishi. About 1/2 of that total cost was used to add to or improve the pollution-control equipment and facilities.	
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OCTOBER/NOVEMBER 1984

Cyprus Bagdad Copper Co. (subsidiary of Amoco Minerals Co. of Standard Oil Co., Indiana).	Bagdad, AZ.	Resumed mining and milling operations Nov. 5 at 75 percent of capacity. About 350 employees returned to work. The mine had been closed since February.	
Duval Corp.	Sierrita, AZ.	Implemented a 15-percent wage cut for all employees at the operation in mid-October; added 2 extra shifts per month; and planned to increase production from 85,000 to 100,000 tons per day. Duval's employees have been working without a contract since Oct. 1, 1983.	

FEBRUARY - MARCH 1984

<u>Commodity and Company</u>	<u>Operation and/or Location</u>	<u>Notes</u>
COPPER		
ASARCO Incorporated.	Sacaton Mine, near Casa Grande, AZ.	Announced April shutdown of open pit mine because of import competition and low prices. Sacaton ranked 16th in output among U.S. copper mines in 1983.
Inspiration Consolidated Copper Co.	Inspiration Operations, AZ.	Laid off 95 workers. Only 2 of 3 converters are operating at smelter.
Kennecott	Utah Copper Division, UT.	Announced additional layoff of 100 workers following January announcement of 400 layoffs. The total workforce at the Utah Copper Division has been trimmed to 4,800 employees (from a peak of 7,300 in 1981).
IRON AND STEEL		
CF&I Steel Corp.	Sunrise Mine, Guernsey, WY.	Shut down blast furnaces. Mine is reportedly being allowed to flood. About 125 workers have been laid off since the mine closed in July 1980, and the remaining 15 are expected to be laid off.
U.S. Steel Corp.	Fairless Works, PA.	Announced that coke production operations will be shut down indefinitely in May with production to be shifted to the Clairton, PA, plant; 300 workers will be laid off.
	Johnstown, PA.	Announced April 1 shutdown of plant following a worker vote against a \$5-per-hour cut in wages and benefits. The plant currently employs about 325 workers, with another 350 on furlough.

APRIL - MAY 1984

Hussey Metals Co. (subsidiary of Louisiana Lend & Exploration Co.)	Leetsdale, PA.	Shut down permanently. 300 workers were laid off. Hussey, a fabricator of copper and brass for the electrical, electronics, and construction industries, operated in the area for 126 years. Depressed conditions in the copper industry were cited for the closure.
Phelps Dodge Corp.	Hidalgo, NM.	Announced plans to close Hidalgo smelter for 14 weeks beginning in June for rebuilding of its flash furnace.

JUNE/JULY 1984

Kennecott	Hurley, NM.	Shut down fire refinery on account of depressed copper prices and decreased demand for fire-refined copper.
	Utah Copper Division	Reduced output of its 200,000-tpy operations by 2/3 beginning in July. The cutback took place after labor officials refused Kennecott's request to reopen negotiations on a 3-year contract ratified in mid-1983.

AUGUST/SEPTEMBER 1984

ASARCO Incorporated	Silver Bell, AZ.	Shut down open pit mine Aug. 15, idling about 170 of 243 workers. The leaching facilities will continue to operate. If the copper market improves by yearend, the mine could be reactivated in January.
Copper Range Co.	White Pine, MI.	Announced a temporary closing of its White Pine Copper Division, citing depressed copper prices, imports, and labor problems. The plant and equipment will be kept on a standby basis during the shutdown. White Pine had 188 salaried employees on its active payroll processing scrap at the firm's new electrolytic refinery. Union employees have been on strike since Aug. 1, 1983.

OCTOBER/NOVEMBER 1984

ASARCO Incorporated.	Mission Mine, Sahuarita, AZ.	Laid off 120 workers in October, prompted by the continuing slump in copper prices. About 286 hourly and 132 salaried employees remain working at the operation.
Chemetco Metal Corp.	Alton, IL.	Shut down 110-tpd secondary electrolytic refinery. The low margin between scrap and refined copper prices was cited as the reason for the shutdown.

COPPER December 1984-January 1985

Kennecott, Utah Copper Division	Salt Lake City, UT.	Laid off 100 workers on January 13; total employment is down to 2,370 from 6,637 workers at the end of 1981. The division was operating at one-third capacity after a major layoff in July 1984.
Phelps Dodge Corp.	Morenci, AZ.	Shut down copper smelter indefinitely in late December, citing the high cost of complying with Federal and State air pollution standards, depressed copper prices, and high operating expenses. Approximately 450 workers were affected; some were transferred to other company operations, but most were laid off indefinitely. Closing of the 160,000 mtpy smelter will reduce the domestic operating rate to 1.3 million metric tons of copper, about 75 percent of total U.S. copper smelting capacity.
Tennessee Chemical Co.	Copperhill, TN.	Announced that its mines in the Ducktown Basin will cease operations by end of 1987 because they are no longer economical to operate. The company will purchase scrap copper and sulfur to continue chemical operations. About 900 employees and 12,000 tpy of copper production capacity will be affected by the closure.

Openings, Expansions, New Contracts, &c.

COPPER

Kennecott and Anaconda Minerals.	Bingham North Ore Sheet Extension (Kennecott and Carr Fork Mine (Anaconda), UT.	Announced a letter of intent leading to a joint operating agreement for the 2 adjacent properties. Under the proposed agreement, Kennecott would receive 96 percent of the ore output from the joint venture. Its Bingham Canyon open pit has been operating at about one third of its 200,000 tpy capacity since July. The Carr Fork Mine has been closed since November 1981. Conclusion of the agreement, which is subject to approval by the U.S. Justice Department, reportedly could alter Kennecott's plans for a \$400 million modernization program for the Bingham Pit, allowing it to opt for a smaller but higher grade underground operation.
Magma Copper Co. (subsidiary of Newmont Mining Corp).	Cicero, IL.	Purchased the continuous-cast, copper-rod Hawthorne mill from American Telephone and Telegraph Co. The 30,000 tpy mill has been closed since July but will be reopened in early 1985. Magma is expected to furnish most of the copper for the mill. The acquisition moves Magma closer to major rod-consuming markets, and wire and cable manufacturers, in the Midwest and East.

Kennecott said that it had "no announcement" regarding any production moves in the aftermath of the collapse of labor negotiation meetings. While a source confirmed that "we said the closure of Bingham Canyon was likely if talks were not "fruitful," he added that the shutdown of Utah Copper Division is just "one of several alternatives." Utah is running at slightly under one-third of its 200,000-tpy refine capacity.

Phelps Dodge has announced a proposed equity sale of its Morenci, Arizona, operations to Sumitomo Corp, of Japan.

Both partners is in the struggling Anamax Mining Co. continue to search for buyers for their shares in the copper and molybdenum mine more than five years after a consent order required one of the partners, Atlantic Richfield Co., to divest its 50 percent ownership.

Officials at both Arco and Amax Inc., the joint owners of Anamax, acknowledged they were continuing to look for buyers for the mine, but both admitted the search is unlikely to produce any prospective buyers in current market conditions. The mine, located at Twin Buttes, Montana, has been shut down since February 1983, although production of copper cathodes continues using existing stocks of copper oxide at the site.

Echo Bay Mines (Canada) completed its acquisition of Copper Range from Louisiana Land & Exploration on January 11, 1984. It is not known what the new owner intends to do about the idled White Pine, Michigan, copper complex. A vice president of Echo Bay said, "We are going to look at the assets and talk to the employees. There might be a sale, we might lease out the refinery. However, anyone can read the handwriting on the wall -- at these prices we are not going to get the underground segment running again."

Standard Oil of Indiana announced that it plans to spin off the metals, industrial minerals, and coal operations of its Amoco Minerals subsidiary in a tax-free distribution of shares to Standard's stockholders. Cyprus Minerals, the new company, will be comprised of three divisions -- metals, industrial minerals, and coal. Cyprus Bagda, Cyprus Pima, Cyprus Thompson Creek, and the Nothumberland gold mine in Nevada will fall under the new entity's metals divisions. Only the industrial minerals and coal sectors were profitable last year. Cyprus Bagdad increased output at its Bagdad, Arizona, mine to capacity -- 85,000 tpy of contained copper -- at the end of 1983. Cyprus Pima's copper mine at Pima, Arizona, halted mining on June 4, 1982, and milled the last of its stockpiled ore on October 1 of that year. It is expected to operate only as a swing mine.

Pennzoil has announced that its Duval mining assets are for sale.

Sources: Minerals and Materials, U.S. Bureau of Mines
(June/July 1983 - October/November 1984).

American Metal Market
(various issues Jan-Feb. 1984)

Metal Week
(various issues Jan. 1984))

ATTACHMENT 2

Position Regarding Production Restraint on Copper

The Government of Chile opposes restraints on the production of copper. We believe copper prices exceed production costs, that is, production remains profitable.

The Government of Chile rejects in principle attempts to exercise monopoly power to manipulate world supplies and prices of basic commodities. It is not in Chile's long term interest to engage in such practices.

Moreover, in reality, Chile would not benefit from attempt to manipulate world copper supply and prices through production restraints it has been objectively demonstrated* that production cutbacks even by four major copper producers -Chile, Peru, Zambia and Zaire- would not benefit them. Nor would such cutbacks by these countries materially benefits copper miners in the United States. World supply and demand for copper is relatively elastic. In these circumstances, the impact of production cutbacks on copper prices would be too small to compensate copper producers for the loss of revenue from lower production.

Thus for reasons of sound government policies and because of the realities of the market, Chile maintains its firm opposition to restrictions on copper production.

*See "Would CIPEC Nations benefit from production cutbacks?" paper by Robert S. Pindyck (Professor of Applied Economics, Massachusetts Institute of Technology), August 7, 1984, for the U.S. Government Interagency Task Force on Copper. Pindyck demonstrates a 15 percent production cutback by Chile, Peru, Zambia and Zaire would raise world copper prices only three percent but cause a 13 percent drop in their gross revenues.



CIPEC

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Mr. D. Phillips
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600, 17th Street N.W.
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Paris, 11th January 1985

Dear Mr. Phillips,

I am writing as a consequence of your telephone conversation with my colleague Peter Parkinson on 18th December 1984, when you discussed the renewed activity of the Interagency Task Force on copper prompted by section 247 of the Trade and Tariff Act passed by Congress in October 1984. That urged the President to negotiate voluntary restraint agreements with the major copper-exporting countries. I understand that your Task Force is carrying out a major review of the U.S. copper industry to enable you to decide whether or not to recommend such a voluntary approach, and that your work is expected to be completed by the end of January 1985.

From a CIPEC point of view such negotiations, which could be particularly directed against four of our members - Chile, Peru, Zaire and Zambia - do not appear to be an appropriate remedy for the difficulties of the U.S. domestic copper industry. We have set out our reasons, supported in general by published statistics, in the attached document. I hope that you and your group will find it useful. If you need any further explanation, please contact either myself or Mr. Parkinson.

I succeeded Eduardo Llosa, whom you met in Washington in April 1984, as Secretary-General of CIPEC at the beginning of 1985.

Yours sincerely,

Donge Nigu
Secretary-General

Enc.