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# WITHDRAWAL SHEET

## Ronald Reagan Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
<del>13. NSDD #66</del>	<del>"East-West Economic Relations and Poland-Related Sanctions" (3pp)</del>	<del>11/29/82</del>	<del>P-1 B1</del>
14. summary	of conclusions (3pp)	n.d.	P-1 B1 Folder 6
15. memo	from David laux to J. Poindexter re: Australian Prime Minister Hawke's telephone conversation with Sec. Shultz (1p)	7/25/86	P-1 B1 Folder 7
16. memo	from J. Poindexter to the President re: Australian PM Hawke's letter to you (2pp)	n.d.	P-1 B1
17. letter	from PM Hawke, Australia to R. Reagan re: grain sales (2pp)	7/22/86	P-1 B1
18. memo	from George Shultz to the President re: Dole Amendment (1p)	7/24/86	P-1 B1
19. NSC/S profile	(1p)	7/22/86	P-1 B1
20. letter	from Robert Hawke, Australia to R. Reagan, via Aust. Embassy re: grain sales (2pp)	7/22/86	P-1 B1
21. report	Implementation of NSDD #66 (1p)	n.d.	P-1 B1
COLLECTION: DANZANSKY, STEPHEN I.: Files			db
FILE FOLDER: Soviet Union (Grain) <del>[7 of 8]</del> <del>Box 01819</del> (7 of 11) RAC Box 12			12/5/94

### RESTRICTION CODES

**Presidential Records Act - [44 U.S.C. 2204(a)]**

- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
- P-3 Release would violate a Federal statute [(a)(3) of the PRA].
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

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

- F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
- F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
- F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].
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Grain (5 of 8)  
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6/11/81 (5 of 8)  
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Grain (5048)

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NATIONAL SECURITY COUNCIL

ID 8605417

REFERRAL

DATE 22 JUL 86

MEMORANDUM FOR: STATE SECRETARIAT

DOCUMENT DESCRIPTION:

TO: PRESIDENT

SOURCE: HAWKE, ROBERT

DATE 22 JUL 86

KEYWORDS: AUSTRALIA

USSR

HS


SUBJ: LTR FM PM HAWKE RE FARM SUBSIDITIES TO USSR

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REQUIRED ACTION: RECOMMENDATIONS

DUE DATE 29 JUL 86

COMMENTS:

 *Paul Schultz*

EXECUTIVE SECRETARY



# SEEDS OF SUSPICION Over the Wheat Deal

By DENNIS D. MILLER

The Soviet Union is about to violate, for the second straight year, a long-term agricultural purchasing agreement with the U.S. In effect, the Soviet Union has imposed a partial grain boycott against U.S. wheat farmers. This development will embarrass the U.S. Agriculture Department, hurt the American farmer, diminish the Soviets' credibility and make arms-control agreements less likely.

The Reagan administration has so far let the Soviets off scot-free, and may soon be compounding the injury. Senate Majority Leader Robert Dole (R., Kan.) told reporters last Wednesday that the administration had "under active consideration" a plan to boost U.S. farm exports by giving the Soviet Union subsidies on U.S. grains in the form of "bonus" crops. Giving free grain to the Soviets might be the only way the U.S. could get them to live up to their grain agreements.

In fiscal 1985, the Soviets for the first time failed to buy the minimum amount of wheat according to the Second Long Term Grain Purchase Agreement (LTGPA) signed in 1983. By this agreement, the Soviets obligated themselves to purchase from the U.S. for each of the next five years a minimum of four million metric tons (mmt) of corn and the same quantity of wheat, plus one million metric tons of either corn or wheat, or 500,000 metric tons of soybean and soybean products. The Soviets purchased no soybeans, 15.9 mmt of corn (the result of particularly poor Soviet corn production), but only 2.9 mmt of wheat. This put them 1.1 mmt short of the agreement with respect to wheat. So, while the Soviets did purchase more corn from the U.S. than was required—partly because it is one of the few major suppliers—the shortage in wheat purchases meant that wheat farmers were shortchanged by at least \$100 million.

The U.S. in effect did nothing.

## Like Peanuts

Getting away so easily has emboldened the Soviets to violate the agreement again. Last month, at an agricultural meeting in Moscow, the Soviets refused to offer assurances that they would not violate the grain agreement for a second straight year.

As of yesterday, the Soviets this fiscal year had purchased 6.8 mmt of corn, 1.5 mmt of soybeans, but only 153,000 tons of wheat. With a little more than two months

left in the grain-agreement year, the Soviets must buy 96% of their wheat obligation (some 3.85 mmt) to fulfill the terms of the agreement. The value of this unbought wheat is approximately \$500 million, an amount that makes the \$9.5 million that Willie Nelson's Farm Aid I and II concerts have earned for the American farmer look like peanuts.

This Soviet "boycott" of U.S. wheat farmers takes place in a considerably different context from the U.S. grain "embargo" against the U.S.S.R. in 1980.

At that time, the U.S. was responding to the Soviet invasion of Afghanistan. Now, the U.S.S.R. is probably responding to a hard-currency shortage. Soviet hard-cur-

and its failure to improve port facilities. The Soviets have also accused the U.S. of sending impure grains, charging excessive prices and not offering preferred credit arrangements.

During the U.S. embargo, the U.S. allowed the Soviets to buy the minimum eight mmt of grains specified in the first LTGPA, but disallowed an additional 17 mmt that the Soviets had obtained permission to buy. This concession was made because President Carter's advisers considered the agreement to be as important as a treaty. Moscow is not showing similar scruples in observing the present grain agreement.

The Agriculture Department is appro-

*Last month, the Soviets refused to offer assurances that they would not again violate the grain agreement.*

rency earnings may fall as much as \$12 billion from 1984 to 1986, a sum that is 38% of their total hard-currency earnings in 1984 and 43% more than the Soviets have ever spent on grain imports in any one year.

The Soviet's hard-currency problem is especially relevant to the grain markets since the Soviets have in six of the past eight years spent a nearly constant proportion—37%—of their hard-currency earnings from the sales of petroleum and natural gas on grain imports. Since grain production in the Soviet Union is at nearly the same level it was in 1970, hard-currency earnings have allowed the Soviets to augment grain supplies from imports from under three mmt a year in 1970 to roughly 45 mmt in 1984.

Low international oil prices and oil-production problems now threaten the Soviets' ability to sustain not just the levels of agricultural imports but all allowed imports from the West. But, as yet, there is no evidence that the Soviets have had problems borrowing hard currency in the international financial markets to make up for their shortage.

Instead of admitting that a hard-currency shortage may affect their grain purchases, the Soviets have chosen to shift the blame for their violations onto their suppliers. They are now justifying a breach of a purchase agreement with Argentina because of its alleged high grain prices, its negligence in correcting a trade imbalance

privately concerned about maintaining the good will of U.S. grain customers. That's part of its job. But with the U.S.S.R. it has perhaps gone too far. Since the U.S. grain embargo, the U.S. has watched its share of the Soviet grain-import market shrink. In 1979, the U.S. supplied 87% of Soviet corn and 56% of wheat imports. By 1985, these shares had shrunk to an estimated 69% in corn and 5.3% in wheat. The U.S. stands to lose even more of its wheat market share as the Soviets seem set to ignore the agreement for a second year running.

But the Soviet's violation of the second grain agreement is just part of the story. The Soviets have also refused to comply with the U.S.-U.S.S.R. Agricultural Cooperation Agreement renewed in 1985, particularly the information-exchange portion.

Here they enjoy a unilateral information advantage, but thwart the Agriculture Department's efforts to obtain the most basic information at the national level on Soviet grain yields, production, and import volume. Soviet statistics on grain yields and production have been a "state secret" since 1980 and on import volume since 1976. This information is important for farmers, researchers, exporters and agricultural policy makers. All such information about the U.S. is publicly available to the Soviets.

Yet while the Soviets hide much of the information the U.S. freely provides, they're eager to cooperate in areas where the U.S. leads, such as agricultural science and technology, remote sensing and ge-

netic engineering. In this way, the Soviets profit greatly from the agreement and the U.S. very little. The longer the U.S. tolerates the imbalance, the more negotiating leverage it loses.

Agricultural trade makes up the largest proportion of U.S. exports to the U.S.S.R., averaging more than 70% of the total export value from 1975 to 1984, and reaching 86% in 1984. Soviet noncompliance has now raised doubts about the reliability of this huge—\$1.9 billion in U.S. agricultural exports in 1985—trade link.

## Freedom Is Feared

International trade has always been and continues to be a promising method of maintaining peace. For the first time in modern history, the thought of war among the nations that make up the European Economic Community is gone. This is partly because of the tightly knit web of commercial relations. The EC's example recalls Alexander Hamilton's remark: "The spirit of commerce has a tendency to soften the manner of men, and to extinguish those inflammable humours which so often have kindled into wars." Certainly, the trust gained from trade is one foundation for peace among nations.

And as trade fosters trust, trust requires a certain openness. But clogged societies are shut because of mistrust; their governments fear freedom. The mistrust that characterizes closed societies limits the peaceful potential of trade in nudging a closed society toward openness. Witness China.

Breaches of trade and exchange agreements obviously stunt the growth of trust. The Soviets realize this. Their violations of and noncompliance with agricultural agreements are also certain to weaken their credibility in arms control. So if, at the faintest whiff of advantage, they show an unwillingness to respect less-vital agreements, then what are they likely to do when more is at stake?

Clearly, if the Soviets are sincere about the U.S. taking them at their word, they can show it by sticking to their agricultural agreements. The Agriculture Department, the U.S. farmer and all advocates of peace would surely appreciate it.

*Mr. Miller just completed a one-year stint as an analyst with the Economic Research Service of the U.S. Agriculture Department.*



"(B) in the case of workers of a firm in the oil or natural gas industry, for which such workers' firm, or appropriate subdivision thereof, provides essential parts or essential services,

contributed importantly to such total or partial separation, or threat thereof, and to such decline in sales or production.

"(b) For purposes of subsection (a)(3)—

"(1) The term 'contributed importantly' means a cause which is important but not necessarily more important than any other cause.

"(2) Natural gas shall be considered to be competitive with crude oil and refined petroleum products.

"(3) Any firm, or subdivision of a firm, which—

"(A) engages in the exploration for oil or natural gas,

"(B) produces or extracts oil or natural gas, or

"(C) processes or refines oil or natural gas, shall be considered to be a part of the oil or natural gas industry and to be a firm providing essential services for such oil or natural gas and for the processed or refined products of such oil or natural gas.

"(4) Any firm which provides essential parts, or essential services, to another firm that conducts activities described in paragraph (3) with respect to oil or natural gas, as its principal trade or business, shall be considered to be a part of the oil or natural gas industry and to be a firm providing essential services for such oil or natural gas and for the processed or refined products of such oil or natural gas."

(b) Subsection (c) of section 251 of the Trade Act of 1974 (19 U.S.C. 2341(c)) is amended to read as follows:

"(c)(1) The Secretary shall certify a firm (including any agricultural firm) as eligible to apply for adjustment assistance under this chapter if the Secretary determines that—

"(A) a significant number or proportion of the workers in such firm have become totally or partially separated, or are threatened to become totally or partially separated,

"(B) sales or production, or both, of such firm have decreased absolutely, and

"(C) increases of imports of articles like or directly competitive with articles—

"(i) which are produced by such firm, or

"(ii) in the case of a firm in the oil or natural gas industry, for which such firm provides essential parts or essential services, contributed importantly to such total or partial separation, or threat thereof, and to such decline in sales or production.

"(2) For purposes of paragraph (1)(C)—

"(A) The term 'contributed importantly' means a cause which is important but not necessarily more important than any other cause.

"(B) Natural gas shall be considered to be competitive with crude oil and refined petroleum products.

"(C) Any firm which—

"(i) engages in the exploration for oil or natural gas,

"(ii) produces or extracts oil or natural gas,

"(iii) processes or refines oil or natural gas, or

"(iv) provides essential parts, or essential services, to another firm that conducts activities described in any of the preceding clauses as its principal trade or business, shall be considered to be in the oil or natural gas industry and to be a firm providing essential services for such oil or natural gas and for the processed or refined products of such oil or natural gas."

(c)(1) The amendments made by this section shall apply with respect to petitions for certification which are filed or pending—

(A) on or after September 30, 1986, and

(B) before October 1, 1987.

(2) Notwithstanding any other provision of law, no worker shall be eligible for assistance under subchapter B of chapter 2 of title II of the Trade Act of 1974 if—

(A) such worker is covered by a certification made under subchapter A of such chapter only by reason of the amendment made by subsection (a) of this section, and

(B) the total or partial separation of such worker from adversely affected employment occurs after September 30, 1987.

#### OPPOSITION OF MULTILATERAL ASSISTANCE FOR FOREIGN SURPLUS COMMODITIES AND MINERALS

Sec. 303. (a) The Secretary of the Treasury shall instruct the United States Executive Directors of the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation, the Inter-American Development Bank, the International Monetary Fund, the Asian Development Bank, the Inter-American Investment Corporation, the African Development Bank, and the African Development Fund to use the voice and vote of the United States to oppose any assistance by these institutions, using funds appropriate or otherwise made available pursuant to any provision of law, for the production or extraction of any commodity or mineral for export, if—

(1) such commodity or mineral, as the case may be, is in surplus on world markets; and

(2) the export of such commodity or mineral, as the case may be, would cause substantial injury to the United States producers of the same, similar, or competing commodity or mineral.

(b)(1) The amount of payments which the United States may make to the paid-in capital of an international financial institution described in subsection (a) during any capital expansion or replenishment of such institution may not exceed the amount of funds which such expansion or replenishment minus an amount which bears the same proportion to the aggregate amount of assistance described in paragraph (2) furnished by such institution as the United States share of the expansion or replenishment bears to the total amount of the expansion or replenishment.

(2)(A) The aggregate amount of assistance referred to in paragraph (1) is the amount of assistance furnished by an international financial institution to all countries during the period described in subparagraph (B)—

(1) to support the production or extraction of any commodity or mineral for export, if—

(I) such commodity or mineral as the case may be, is in surplus on world markets; and

(II) the export of such commodity or mineral, as the case may be, would cause substantial injury to the United States producers of the same, similar, or competing commodity or mineral; and

(ii) to subsidize (other than under clause (1)) the exports of commodities and minerals from such countries.

(B) The period referred to in subparagraph (A) is the same number of years as the capital expansion or replenishment period, which immediately preceded the first year of the expansion or replenishment period.

(3) For purposes of paragraph (2)(A)(ii), the term "subsidize" is used within the meaning of the Agreement on Interpretation and Application of Articles V, XVI, and XXIII of the General Agreement on Tariffs and Trade and the annex relating thereto, done at Geneva on April 12, 1979.

(4) Any funds withheld from payments to an international financial institution pursu-

ant to this section shall be used to reduce the public debt in the manner specified in section 3113 of title 31, United States Code.

#### AGRICULTURAL EXPORT ENHANCEMENT PROGRAM

Sec. 304. Section 1127(b)(2) of the Food Security Act of 1985 (7 U.S.C. 1736v(b)(2)) is amended, effective for the fiscal year ending September 30, 1986, only, by inserting after "interested foreign purchasers" the following: "and permit the participation of all foreign purchasers who have traditionally purchased United States agricultural commodities and the products thereof and who maintain trade relations with the United States".

Mr. HEINZ. Mr. President, I move to reconsider the vote by which the bill was passed.

Mr. PROXMIRE. Mr. President, I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. HEINZ. Mr. President, I want to thank the Senator from Wisconsin and, indeed, all Senators for their cooperation in moving ahead on the Export-Import Bank reauthorization. I am particularly grateful, as I said, to my friend from Wisconsin, who has been so able, persuasive, and effective in helping to manage this bill. I think what we have done is going to serve us in good stead. We adopted some amendments and we rejected some amendments. I think the Senate can be proud of its work product. I thank all Senators who helped and cooperated in that regard. I include specifically the ranking minority member.

I also want to recognize the efforts of Senator GARN and Senator D'AMATO who helped floor manage this bill while I was detained in the Finance Committee with the markup on the reconciliation bill.

Mr. PROXMIRE. Mr. President, I want to thank my good friend, the chairman of the subcommittee. As usual, he managed this bill masterfully. He has done an outstanding job on the bill. I think it is a good bill. It could not be nearly as good if it did not have the expert and competent leadership and management of my good friend from Pennsylvania, Senator HEINZ.

□ 1840

Mr. COCHRAN. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. GARN. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

#### ROUTINE MORNING BUSINESS

Mr. GARN. Mr. President, I ask unanimous consent that there be a period for routine morning business until the hour of 7:15 p.m.

The PRESIDING OFFICER. Without objection, it is so ordered.



(N)

# NATIONAL SECURITY COUNCIL EXECUTIVE SECRETARIAT STAFFING DOCUMENT

TIME STAMP

86 JUL 22 P 7: 22

SYSTEM LOG NUMBER: 5418

ACTION OFFICER: DANZANSKY DUE: 23 July 1986

- Prepare Memo For President
- Prepare Memo For Poindexter / Fortier
- Prepare Memo \_\_\_\_\_ to \_\_\_\_\_
- Prepare Memo McDaniel to Chew
- Prepare Memo McDaniel to Elliott

CONCURRENCES/COMMENTS\*

PHONE\* to action officer at ext. 3622

- FYI
- Brooks
  - Burghardt
  - Cannistraro
  - Childress
  - Cobb
  - Danzansky
  - deGraffenreid
  - Djerejian
  - Dobriansky
  - Donley
  - Douglass
  - Farrar
  - Grimes
  - Hanley
  - Kelly
  - Kraemer

- FYI
- Laux
  - Lenczowski
  - Levine
  - Linhard
  - Mahley
  - Major
  - Mandel
  - Matlock
  - May
  - Perry
  - Platt
  - Pugliaresi
  - Raymond
  - Reger
  - Ringdahl

- FYI
- Ross
  - Sable
  - Sachs
  - Sestanovich
  - Small
  - Sommer
  - Soos
  - Stark
  - Steiner
  - St Martin
  - Tahir-Kheli
  - Teicher
  - Thompson
  - Tillman
  - \_\_\_\_\_
  - \_\_\_\_\_

- INFORMATION
- McDaniel
  - Rodman
  - Poindexter (advance)
  - Pearson
  - \_\_\_\_\_
  - Fortier (advance)
  - Secretariat
  - \_\_\_\_\_

COMMENTS

Return to Secretariat



THE SECRETARY OF THE TREASURY  
WASHINGTON

5418

July 22, 1986

MEMORANDUM FOR THE HONORABLE GEORGE P. SHULTZ  
SECRETARY OF STATE

THE HONORABLE DONALD T. REGAN  
CHIEF OF STAFF AND ASSISTANT TO THE PRESIDENT

VICE ADMIRAL JOHN M. POINDEXTER  
ASSISTANT TO THE PRESIDENT FOR NATIONAL  
SECURITY AFFAIRS

FROM: JAMES A. BAKER, III *JAB III*  
SUBJECT: Mexico's Program for Sustained Economic Growth

Attached is a revised paper describing Mexico's Program for Sustained Economic Growth. This description of Mexico's program represents a joint agreement between the Treasury Department, the Federal Reserve and the Mexican Finance Ministry. This paper, under cover of the attached Treasury press release, will be released to the press today at 5:30 p.m., following Mexico's press conference to announce their program in concert with the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, and the International Finance Corporation.

Attachment

FOR IMMEDIATE RELEASE  
JULY 22, 1986

Contact: Art Sidon  
(202) 566-2041

MEXICO'S PROGRAM FOR SUSTAINED ECONOMIC GROWTH

Secretary of the Treasury James A. Baker, III welcomed the announcement by the Mexican Government of its growth-oriented, medium-term economic program. Secretary Baker praised the representatives of both the Mexican Government and the international financial institutions for their innovative and cooperative approach to addressing Mexico's economic situation. He pointed in particular to the following elements of the program:

- The wide-ranging structural reforms of the Mexican Government, including measures to increase the efficiency of the public sector, to rationalize price structures, to promote trade liberalization and industrial restructuring.
- The innovative, growth-oriented program of the IMF, incorporating special provisions to help ensure adequate financing and to promote growth through investment.
- The enhanced support of the World Bank through a wide variety of policy-based loans, covering trade policy, export development, agricultural policies and industrial recovery.

Attached is a summary of "Mexico's Program for Sustained Economic Growth."



## MEXICO'S PROGRAM FOR SUSTAINED ECONOMIC GROWTH

### SUMMARY

- o In the context of a difficult financial situation brought about by a sharp drop in oil prices, Mexico has embarked upon a comprehensive three-year program of growth and economic reform. This program is intended to reverse the current decline in the Mexican economy, increase employment, and promote sustained economic growth.
- o The program represents an innovative effort on the part of the Mexican government and international financial institutions. It combines structural measures designed to increase the overall efficiency of the Mexican economy; fiscal measures designed to reduce the government deficit; prudent monetary policy; and innovative external financing arrangements designed to put Mexico on a path of sustainable growth.
- o The program involves policy reforms in key structural areas such as: (1) measures to increase the efficiency of the public sector; (2) rationalization of the price structure leading to more market-based prices; (3) tax reform; (4) trade liberalization; and (5) promotion of increased flows of foreign direct investment consistent with Mexico's development program.
- o The program has been developed together with the international financial institutions (IMF, IBRD, IFC, IDB) and enjoys their support.

### IMF:

- o Mexico's overall program is supported by an innovative IMF agreement which has been approved in principle and is expected to be formally approved shortly. The IMF program is an 18-month stand-by which takes into account a medium-term perspective to allow for a more appropriate time frame for policy implementation and to ensure steady and consistent application of policy measures.
- o The IMF program aims to restore Mexican growth to a level of 3.5% in real terms in 1987 (vs. an anticipated growth of -4% in 1986).
- o In addition to reform measures already taken, it includes current expenditure cuts, increased public investment, tax reform measures, and price adjustments to bring Mexican prices closer to market levels leading to a 3 percentage point reduction in the deficit/GDP ratio by end-1987.
- o The IMF program contains important innovative elements intended to improve the efficiency of the Mexican economy and ensure adequate growth in the event of a further weakening in oil prices:

- (1) a \$500 million contingency investment fund to supplement investment if growth falls below 3.5% in 1987; and
- (2) provisions for substantial additional financing for a period of up to nine months in the event that oil prices fall to a level between \$5-9/bbl. If oil prices remain at such low levels for more than nine months, subsequent financing will be reduced over the next four quarters by increasing GOM adjustment.

#### IBRD/IDB:

- o The World Bank is actively supporting Mexico's economic growth program through a wide variety of policy-based loans. These loans will enable Mexico to undertake key structural reforms:
  - (1) A \$500 million Trade Liberalization Loan which will support a substantial modification in Mexico's protective trade regime and help open its economy to foreign competition.
  - (2) A \$250 million Export Development Loan which will help diversify and strengthen Mexico's export base.
  - (3) A \$400 million Agricultural Credit Loan which will promote increased productivity in the agricultural sector.
  - (4) A \$150 million Industrial Recovery Loan which helps restructure highly leveraged companies, promoting greater efficiency.
- o Overall, IBRD and IDB net disbursements to Mexico are expected to be in excess of \$1.0 billion for each year, 1986 and 1987.

#### Official Bilateral Credit

- o Mexico is currently considering a Paris Club rescheduling, provided that this could be done in a manner that would increase net credit flows. If Mexico does seek rescheduling of its official obligations through the Paris Club, the U.S. Government is prepared to continue to support Mexico with trade credits and to urge other governments to do the same.

#### Commercial Banks

- o The commercial banks are expected to support Mexico's program through additional loans on manageable terms, reflecting confidence in Mexico's economic growth program.

#### INTERNAL MEXICAN POLICIES

##### 1. Rationalizing the Role of Government

- o The GOM has been following a policy of rationalizing the role of public enterprises in the economy. Between February 1985 and June 1986 it sold or closed a total of 23 state enterprises, including a major steel mill (Fundidora Monterrey).



- o A major new development in this area is the recent decision by the GOM to publish a list of those enterprises which, according to the Constitution and laws, must remain within the public sector. All others will be sold, merged, closed down, or transferred. This will be in addition to the approximately 450 public entities disposed of since December 1982.

## 2. Trade Liberalization

- o Mexico is actively pursuing trade liberalization which will be advanced through IBRD policy-based lending and through Mexico's full, formal accession to GATT on July 17.
- o The GOM has replaced licenses with tariffs for 88% of its import items, reduced tariffs for 4,280 items, is promoting exports through tax rebates, relaxation of exchange controls, and automatic approval of imports to be used in production for export.
- o In addition to the \$500 million Trade Liberalization Loan the IBRD is providing in 1986, two follow-up loans for further liberalization are under consideration for 1987 and 1988.
- o As part of its GATT accession Mexico has committed to:
  - (a) be bound by four of the non-tariff barrier codes;
  - (b) eliminate domestic reference prices by end-1987;
  - (c) further eliminate import licenses, or justify them under GATT provisions;
  - (d) observe GATT provisions with regard to the application of its trade law, purchasing practices of its state enterprises, and implementation of its National Industrial Development and Foreign Trade Program (PROFICE).

## 3. Fiscal Measures

- o Mexico will make cuts in its fiscal deficit, reducing its current deficit/GDP ratio by 3 percentage points by the end of 1987. These would be covered by public sector price adjustments, a variety of revenue producing tax reforms, and expenditure cuts.

## 4. Pricing Adjustment

- o The GOM is reducing subsidies to many of its state enterprises to achieve market-based prices. The GOM has raised prices significantly (27-57%) on gasoline, electricity and telephone rates, bread, milk and tortillas. Bus and metro fares, which had been frozen for 18 years, have been increased twenty-fold.
  - The GOM will make further adjustment of public prices and gradually eliminate price controls which will result in a more efficient allocation of resources.



## 5. Tax Reform

- o The GOM has decided to embark on a structural reform of the Mexican tax system and improvements in its administration.
- o Mexico's tax system was not designed to operate in an environment of high inflation, and has increasingly become less responsive to changes in nominal income.
- o Moreover, actions taken to mitigate the impact of inflation and foreign exchange losses on firms' financial positions, together with the granting of tax incentives, have eroded the total taxable base.
- o The key feature of the reform would be the correction of the base of the corporate income tax which will be calculated on a notional broad income base. This would result from stricter limitations on the deductability of interest payments.
- o In addition, measures are being taken to reduce the revenue losses accruing to the government from lags between the accrual and collection of taxes:

## 6. Foreign Direct Investment

- o The GOM has been applying its foreign investment laws more flexibly and has begun to approve 100% ownership of foreign subsidiaries. The GOM has also sped up the foreign investment application process and has increased its approval ratio.
  - °° IBM, Hewlett-Packard, Apple Computers, and Honda have been granted permission for 100% owned subsidiaries.
- o The GOM has set up an office within its Finance Secretariat to handle debt/equity swaps, which encourage privatization and foreign investment.
  - °° Twelve deals have been completed (e.g., Nissan, Komatsu, Volkswagen, and Rohm and Haas).
  - °° Several more cases are pending and the GOM is processing investor inquiries within 30 days.

## NEAR-TERM CONTINGENCY RESERVE FINANCING ARRANGEMENT

- o The IMF Managing Director is seeking the support of governments and commercial banks in the provision of near-term contingency international credits to support Mexico's international reserves, pending completion of definitive arrangements to meet Mexico's financing needs under the program.
- o The United States has agreed to participate in such an arrangement and to assist in the coordination of participation by other governments, central banks, and commercial banks.

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## Ch. 1

treat its citizens in a more humane or libertarian way? For example, should the United States embargo trade with a country that practices torture on its citizens? Withhold trade concessions or loans from a country that prohibits free speech or free emigration? Should the EEC condition EEC membership for an applicant country on the development of libertarian principles within the society of the applicant? These issues are very complex and involve emotional value-laden arguments. They cannot be ignored, however. Perhaps the most important single controversy concerning the passage of the United States Trade Act of 1974<sup>6</sup> was that which was concerned with whether to link a grant of most-favored-nation treatment and credits for the Communist countries to the granting of permission by those countries to its citizens to emigrate. The following are several short excerpts and a preliminary appraisal of that legislative linkage, (see section 402 of the Trade Act of 1974).<sup>7</sup>

**NOTE.** "AN INTERIM ANALYSIS OF THE EFFECTS OF THE JACKSON-VANIK AMENDMENT ON TRADE AND HUMAN RIGHTS: THE ROMANIAN EXAMPLE," 8 *Law & Policy in International Business* 193, 195-219 (1976)<sup>8</sup>

### *Legislative History*

Following the May 1972 summit meeting in Moscow, President Nixon announced that the United States would soon begin negotiations with the U.S.S.R. on a reciprocal trade agreement which

<sup>6</sup> Concerning the passage of the Trade Act of 1974, see generally § 3.4(C) *infra*. Concerning provisions in that Act relating to MFN for Communist countries see § 18.3.

<sup>7</sup> The Trade Act is reproduced in the supplement of this book.

<sup>8</sup> Reprinted by permission of the *Journal of Law and Policy in International Business*.

was to include MFN treatment. Shortly thereafter, the U.S.S.R. imposed a tax of from \$5,000 to \$30,000 on persons wishing to emigrate as compensation for their "free education" from the State. This and other Soviet emigration policies were perceived as being directed at Russian Jews, and resulted in an organized campaign of retaliation by the American Jewish community. A loosely-knit coalition, led by Senators Jackson, Jacob Javits, Abraham Ribicoff, and Representative Vanik, and strongly supported by the National Conference on Soviet Jewry, initially conceived the idea of linking trade to emigration.

On September 26, 1972, Senator Jackson announced the amendment proposal at a Washington, D.C., meeting of Jewish leaders: "The time has come to place our highest human values ahead of the trade dollar." By combining intense Jewish constituent and congressional staff pressure on his colleagues, Jackson formally introduced his amendment to the Senate on October 4, 1972, with 72 senators listed as co-sponsors. He justified the internal intervention in Soviet affairs with a moral appeal, quoting Alexander Solzhenitsyn: "There are no internal affairs left on our crowded Earth." Congressman Vanik, Jackson's chief ally in the House, utilized the same tactics and had enlisted 259 co-sponsors by the time he formally introduced the amendment to the House on February 7, 1973.

Jewish leaders also produced evidence of over 100 years of U.S. intervention in the internal affairs of other countries on behalf of humanitarian causes. Particularly relevant was the abrogation, in 1913, of an 80-year-old Soviet-U.S. commercial treaty by the State Department after it had become clear that Congress was about to repeal it. The cause of the legislature's concern was the Czarist government's barbaric treatment of its Jewish minority. Publication of these abuses led



to a massive popular movement for repeal of the treaty, culminating in a vote of 301 to 1 in the House of Representatives to repeal the treaty. Then, as now, the State Department led the fight against abrogation, arguing that "quiet and persistent endeavor" would be more effective than trade sanctions in changing Czarist policy, that U.S. commercial and industrial interests would be harmed, and that the United States had no right to intervene in the internal affairs of other countries. However, after the lopsided vote in the House, with Senate passage certain, the State Department quietly abrogated the treaty. Thus, the amendment supporters contended that similar restrictions on trade with Communist countries was in the best tradition of unqualified support for human rights in all countries.

[When the Act was passed with the linkage in it, U.S.S.R. representatives announced that the 1972 US-USSR trade agreement was at an end because the United States Act contradicted the commitments of the agreement.<sup>9</sup>]

Soviet Foreign Trade Minister Nikolai Patolichev . . . announced on July 10, 1975, that the congressional emigration conditions "have nothing to do with trade and the economy [but] relate wholly to the internal competence of the U.S.S.R. It was entirely natural that the Soviet Union felt itself unable to base its trading and economic dealings with the U.S.A. on legislation of this kind." Patolichev continued that limitations on trade are damaging only the United States itself, noting that while Congress debated the granting of \$300 million in credits to the U.S.S.R., the Soviet Union received \$7 billion in credit from other

capitalist countries. Trade with Western Europe and Japan in general commodities is a clearly available alternative to the Soviet Union.

In analyzing the impact of the Jackson-Vanik amendment, it must be recognized that with respect to at least one of its motivations—increased emigration of minorities from the U.S.S.R. and other Communist states—it has so far been a failure. Emigration from the Soviet Union showed a steady increase reaching 30,000 a year in the period shortly after the U.S.-Soviet trade accord. When it became apparent that the Jackson-Vanik amendment was to become law, however, and after the Soviet rejection of the trade pact, emigration plunged to a level of less than 10,000 emigrants per year. In numerical terms alone the amendment seems to have been counterproductive. It does appear that Romania has increased emigration somewhat in response to congressional pressure during the debate on the trade pact, though the results for the moment are still ambiguous. Nevertheless, this triumph, if it is one, is slight. Romania has historically had a very liberal emigration policy compared to other communist countries, and the total number of persons who might wish to emigrate, given the opportunity by the amendment, seems relatively small.

#### SECTION 1.4 SOME HISTORICAL PERSPECTIVES

Many aspects of recent (post World War II) international economic history will be touched on throughout this book.

<sup>9</sup> 72 Dep't State Bull. 139-140 (1975).



agreement apply solely to the parties to that agreement or not apply uniformly to all parties, if such application is consistent with the agreement. The Agreement on Subsidies and Countervailing Duties, negotiated during the Tokyo Round of Multilateral Trade Negotiations, has been implemented by the United States on a non-MFN basis.

*MFN application to Communist countries*

The Trade Act of 1974 repealed section 231 of the Trade Expansion Act of 1962. Section 401 of the Trade Act <sup>13</sup> presently regulates the extension of MFN tariff treatment to Communist countries. Section 401 directs the President to continue to deny MFN treatment to any country to which it was denied on the date of the enactment of the Trade Act (i.e., all Communist countries as of January 3, 1975, except Poland and Yugoslavia). Section 402 also denies MFN treatment (as well as access to U.S. Government credits, or credit or investment guarantees) to any "nonmarket economy" country ineligible for MFN treatment on the date of enactment of the Trade Act and which the President determines denies or seriously restricts or burdens its citizens' right to emigrate.

A country subject to the ban imposed by section 401 may gain MFN status only by fulfilling two basic conditions: (1) compliance with the requirements of the freedom-of-emigration provisions under section 402 of the Trade Act; <sup>14</sup> and (2) conclusion of a bilateral commercial agreement with the United States under section 405 of the Trade Act <sup>15</sup> providing reciprocal nondiscriminatory treatment.

The provisions of section 402, commonly referred to as the Jackson-Vanik amendment, allow a non-MFN, nonmarket economy country to receive MFN status (and access to U.S. financial facilities) only if the President determines that it permits free and unrestricted emigration of its citizens. Alternatively, the President may waive the requirements for full compliance of the particular country with the Jackson-Vanik requirements, if he determines that such waiver will substantially promote the objectives of the freedom-of-emigration provisions and if he has received assurances that the emigration practices of the country will henceforth lead substantially to the achievements of those objectives.

The President's waiver authority must be renewed annually. The renewal procedure under section 402(d)(5) requires the President to submit to the Congress a recommendation for a 12-month extension of the waiver authority within 30 days prior to its expiration, together with his reasons for the recommendation and a determination with respect to each country for which a waiver is in effect that the continuation of the waiver will substantially promote the objectives of the freedom-of-emigration provision.

Under the terms of the 1974 Act, the extension of the waiver authority for an additional 12-month period is automatic unless either House of Congress adopts, within 60 days after the expiration of the previous authority period, a resolution disapproving

<sup>13</sup> 19 U.S.C. 2431.

<sup>14</sup> 19 U.S.C. 2432.

<sup>15</sup> 19 U.S.C. 2435.

Jackson-Vanik



parties to that agreement or not such application is consistent with on Subsidies and Countervailing Tokyo Round of Multilateral Trade negotiated by the United States on a non-

#### countries

section 231 of the Trade Expansion Act<sup>13</sup> presently regulates treatment to Communist countries to continue to deny MFN status if it was denied on the date of the agreement, all Communist countries as of (e.g., all Communist countries as of and Yugoslavia). Section 402 also provides access to U.S. Government credit (guarantees) to any "nonmarket economy" on the date of enactment if the President determines denial of such citizens' right to emigrate.

Waiver authority imposed by section 401 may gain effect under basic conditions: (1) compliance with the freedom-of-emigration provisions of the Trade Act;<sup>14</sup> and (2) conclusion of a bilateral agreement between the United States and the country involved under section 404 and 405 of the Trade Act.

Commonly referred to as the Jackson-Vanik non-MFN, nonmarket economy waiver authority, it provides access to U.S. financial facilities that it permits free and unrestrained trade. Alternatively, the President may waive the MFN status if compliance of the particular country with the requirements, if he determines that the waiver will promote the objectives of the free trade policy and if he has received assurances that the country will henceforth lead substantially to those objectives.

The waiver must be renewed annually. The Trade Act (section 231(d)(5)) requires the President to issue a resolution for a 12-month extension of the waiver 60 days prior to its expiration, to be accompanied by a recommendation and a determination for which a waiver is in effect and that the country will substantially promote the objectives of the free trade policy.

The extension of the waiver authority for a 12-month period is automatic unless a resolution is issued within 60 days after the expiration of the waiver period, a resolution disapproving

such extension either generally or with respect to a specific country. The adoption of such resolution would immediately rescind the waiver authority (and with it the grant of the MFN status) with respect to countries covered by the resolution. The constitutionality of this veto provision, however, is questionable in light of the decision of the U.S. Supreme Court on June 23, 1983, striking down a legislative veto in *Immigration and Naturalization Service v. Chadha*.

In addition to being contingent on compliance with the Jackson-Vanik requirements, Presidential authority to proclaim extension of MFN status to a country excluded under section 401 is subject and limited to the effective period of U.S. obligations under a bilateral commercial agreement between the United States and the country involved. Sections 404 and 405 of the Trade Act authorized the President to conclude such agreements, which must contain various provisions as prescribed by the statute concerning safeguards against disruptive imports, intellectual property rights, trade promotion, and consultations. Agreements and implementing proclamations can take effect only if Congress adopts a concurrent resolution under the expedited procedures of section 151 of the Trade Act. Agreements may remain in force for no more than 3 years, renewable for additional 3-year periods (without any Congressional approval) if past operation has been found satisfactory.

With the exception of Poland, countries listed in General Headnote 3(f) of the TSUS are being denied MFN treatment as Communist countries pursuant to the requirements of section 5 of the Trade Agreements Act of 1951, section 231 of the Trade Expansion Act of 1962 and section 401 of the Trade Act of 1974. Poland is exempt from the denial under section 401, but its unconditional MFN status was suspended indefinitely by Presidential proclamation effective November 1, 1982, under the authority of section 125(d) of the Trade Act.

Presidential waiver authority of the emigration provisions has been extended annually since 1976. The waiver authority and the authority to conclude bilateral trade agreements and grant MFN status has, thus far, been used in three instances, following Congressional approval by concurrent resolution. MFN treatment has been extended to Romania effective August 3, 1975, to Hungary effective July 7, 1978, and to the People's Republic of China effective February 1, 1980. All three underlying bilateral agreements were extended, when appropriate, for additional 3-year periods by Presidential determinations of their satisfactory operation, and are still in effect.



## Parts of Figures

1) U.S. CCC stocks 223 million  
RWS -  $\frac{2}{3}$  domestic <sup>US</sup>

2) SEP - to date \$228 mil  
+  
228 inv. balance

3) Soviet surplus

A) Expected purchases \$15 mmmt  
x US. subsidies \$10

~~\$~~  
\$150 surplus  
+ 2 lower  
wrench  
prog

B) US exports 2-4 mmmt  
x 100 = \$180-350 mil

C) loss on home world  
price = \$25 mmmt (total US  
exports) x \$10 = \$250