EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	NIO/ECON		✓		
20					
21					
22					
	SUSPENSE		Date		

VC/NIC Info –

Remarks
A classic piece –
Worth reading.

cc [redacted]

STAT

Return to
NIO/Econ

Executive Secretary
9/6/84
Date

3637 (10-81)

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WASHINGTON

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84-8067

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 9/5/84 **Number:** 169058CA **Due By:**

Subject: CCCT With the President, Thursday, September 6, 1984 - 2:00 P.M. Cabinet Room -- Briefing on Copper and Steel

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☑	☐
Defense	☐	☑
Attorney General	☑	☐
Interior	☐	☑
Agriculture	☑	☐
Commerce	☑	☐
Labor	☑	☐
HHS	☐	☑
HUD	☐	☑
Transportation	☑	☐
Energy	☑	☐
Education	☐	☑
Counsellor	☑	☐
OMB	☐	☑
CIA	☐	☑
UN	☐	☑
USTR	☑	☐
GSA	☐	☐
EPA	☐	☐
NASA	☐	☐
OPM	☐	☐
VA	☐	☐
SBA	☐	☐

	Action	FYI
CEA	☑	☐
CEQ	☐	☐
OSTP	☐	☐
	☐	☐
	☐	☐
	☐	☐
Baker	☑	☐
Deaver	☐	☑
Darman *(For WH Staffing)*	☑	☐
Mc Farlane	☐	☑
Svahn	☑	☐
Chapman	☐	☑
	☐	☐
	☐	☐
	☐	☐
	☐	☐
Executive Secretary for:		
CCCT	☑	☐
CCEA	☐	☐
CCFA	☐	☐
CCHR	☐	☐
CCLP	☐	☐
CCMA	☐	☐
CCNRE	☐	☐

REMARKS:

The President will chair a meeting of the Cabinet Council on Commerce and Trade on Thursday, September 6, 1984, at 2:00 P.M. in the Cabinet Room.

Attached is the background material for the briefing on the copper issue. No papers will be forthcoming on the steel issue for this meeting.

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs

☐ Don Clarey ☐ Tom Gibson ☑ Larry Herbolsheimer
Associate Director
Office of Cabinet Affairs

DCI
EXEC
REG

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

September 5, 1984

MEMORANDUM FOR THE PRESIDENT

FROM: William E. Brock

SUBJECT: Copper

By September 14, 1984, you must decide whether to grant import relief to the domestic copper industry. On June 14 the USITC unanimously (5-0) found that imports are a substantial cause of injury to that industry. Subsequently, two Commissioners recommended imposition of a 5-cents/lb. tariff for five years; two Commissioners recommended imposition of a 5-year annual import quota of 425,000 short tons; and one Commissioner recommended against import relief.

A thorough review of this issue and of the options available to you has been conducted by the inter-agency Trade Policy Committee (TPC), which met on this issue August 30. Pursuant to Section 202 of the Trade Act, this Committee has examined the effect of relief on consumers and on the international economic interests of the United States, the probable effectiveness of import relief in promoting industry adjustment, and other relevant factors cited in the Act. The results of this examination are encompassed in the attached report.

The Committee focused on the following options: the tariff and quota actions recommended by the USITC Commissioners, the possibility of negotiating restraints on foreign production, and no relief. Representatives of the U.S. copper industry have expressed a strong preference for pursuit of the second option, arguing that its problems stem primarily from the depressed level of world copper prices which, in turn, is essentially due to worldwide overproduction. The conclusions reached in deliberating on these options are outlined below.

<u>Option 1 - Import Relief</u>

The major objection to the tariff and quota proposals of the USITC, or to any other restrictive import measure, is that they would make U.S. copper prices higher than world prices and undermine the competitiveness of our copper-fabricating industry. Employment in the fabricating industry was estimated at 106,000 in 1983

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DECLASSIFIED ON ______________

as compared to an estimated 26,000 employees involved in copper production. Moreover, the U.S. fabricating industry has no significant technological edge over its foreign competitors and, on average, nearly half of its costs of production are accounted for by the cost of copper. Thus, imposition of quotas, or increased tariffs, on copper would seriously disadvantage the U.S. fabricators. Analysis done by the TPC shows that any job gains in copper production resulting from import relief would be more than offset by job losses in the fabricating sector.

Import relief would adversely affect the export earnings of the copper-producing countries (many of which, such as Chile, Zambia, and Zaire, are heavily indebted and highly dependent on copper exports), and it would cause problems in our relations with Canada, which is one of the major suppliers of the U.S. market. It would also reflect unfavorably on the commitments you made at the London Economic Summit to withstand protectionist pressure.

None of the agencies support such import relief action. (Interior favors the negotiation of orderly marketing agreements under Section 201--but with the primary objective of negotiating voluntary and temporary production restraints.)

Option 2 - Negotiation of Restraints on Foreign Production

The negotiation of production restraints could be pursued either within the framework of Section 201, or outside that framework. The first approach would entail a Presidential determination that import relief should be granted and a directive to seek orderly marketing agreements (OMA's). Commitments on production could then be sought as the central feature of these agreements. Interior, which favors this approach, has further suggested that you direct the TPC to advise you, within 75 days, as to what other form of relief should be imposed if such negotiations fail. While this approach would require you to impose some form of import relief if we were unable to negotiate OMA's within 90 days, such relief could be set at such a level (low tariff or high quota) as to have little or no impact on U.S. imports. The threat of import restrictions if OMA's could not be negotiated would, presumably, give us negotiating leverage.

The second approach would entail a Presidential determination that none of the relief measures provided by Section 201 are appropriate, coupled with an expression of deep concern about the state of the U.S. and world copper industry and a directive to me to initiate discussions with key copper producing and exporting countries aimed at improving the supply/demand balance on the world market. Such discussions would be held entirely outside the purview of Section 201. The inherent "foreign affairs" power granted to the President under Article II of the Constitution would provide sufficient legal basis for the pursuit of such outside the purview of Section 201. The inherent "foreign affairs" power granted to the President under Article II of the Constitution would provide sufficient legal basis for the pursuit of such agreements. While Interior prefers the first approach, they could also support this approach.

The objective of negotiated production restraints would be the same under either approach--to secure commitments from key foreign countries to cutback production or defer expansion in order to raise world copper prices significantly above their currently depressed levels. Such a result would not create a gap between U.S. and world prices and, thus, would not disadvantage the domestic copper fabricating industry. However, if such restraints were effective in raising world prices, they would improve the financial situation of the U.S. copper industry and, presumably, prevent a further decline in U.S. production. Representatives of the U.S. copper industry have proposed that the U.S. should try to negotiate a 5-year arrangement with foreign countries providing for initial cutbacks in foreign production in the neighborhood of 300,000 tons annually and a commitment that production increases in the later years of the arrangement would track increases in consumption. Interior believes that such restraints would work down excess stocks, permitting the price to recover over the next 2-3 years and that a carefully structured allocation of production cutbacks could actually improve the export earnings of participating countries.

The most serious objection to this option is that it is grossly inconsistent with the basic policy stance we have taken on international commodity agreements, producer cartel actions, and, more generally, with our efforts to persuade other countries to place more reliance on market forces. It would be widely portrayed by the press and by other countries as an effort to establish a producer cartel in the world copper market and, consequently, might engender resentment among copper-consuming countries such as Japan and the European Community.

Secondly, there is a serious question as to whether we could actually negotiate any meaningful commitments on production. Even the threat of import quotas would, at best, provide us with only minimal leverage; it might even be counterproductive and stiffen resistance to U.S. overtures. We would have to be able to convince foreign producers that such commitments were in their own economic interest or offer them concessions in other areas.

Finally, most economists, both within and outside the Administration, doubt that negotiated production restraints would be effective. Any initial success in boosting prices would tend to be undercut, over time, by increased production in the non-participating countries and by reduced demand. Given the idle capacity that now exist in the world copper industry--especially in the United States, offsetting production increases could be called forth rather quickly.

Option 3 - No Relief

Under this option, you would determine that relief is not in the national economic interest, citing the arguments against relief previously enumerated. At the same time, you could direct the Secretary of Labor to give expeditious consideration to the granting of adjustment assistance to workers, although it should be recognized that the practical effect of this directive would be very modest.

It is difficult to assess what would happen to the U.S. copper industry in the absence of relief. Mine production in the U.S. fell by 28 percent over the 1979-1983 period, from 1.6 million to 1.15 million short tons, while employment in all facets of copper production fell from 43,000 to 26,000. Some of the mine closings effected over the past few years (involving production of about 200,000-300,000 short tons) are regarded as permanent. Thus far in 1984, U.S. production has been running at an annualized rate of about 1 million short tons.

The likelihood of further decreases (or of a recovery) in U.S. production depends essentially on the evolution of world copper prices--and the forecasting of price trends for this volatile commodity has been notoriously unreliable and generally overoptimistic over the past 10 years. Representatives of the industry claim that a further decline in production to about 650,000 short tons, and a correspondingly steep decline in employment, will occur if no relief is granted. Certainly, if the extremely low prices of recent months (about 60 cents/lb.) persist, an even more drastic shrinkage in U.S. production would occur. The Bureau of Mines estimates that at these price levels, only about 230,000 short tons can be produced at a profit in the United States.

However, current prices are not considered to be viable; they are below the production costs of nearly all major copper producers except Chile. Moreover, there has been a marked decline in the stocks overhanging the world market in the first half of 1984. A recovery in prices is expected to occur and most observers

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foresee prices in the range of 70-80 cents/lb. prevailing in the short to medium term. (I should note, however, that the recovery predicted earlier this year did not materialize--instead prices dropped to record lows.) Even prices in the 70-80 cents/lb. range would be low by historical standards, reflecting a continued excess of world production capacity over demand. At such price levels, U.S. copper production would still probably decline moderately from current levels. The Bureau of Mines estimates that at a price of 80 cents/lb. approximately 975,000 short tons of U.S. copper could be produced at a profit or with breakeven costs covered--only 50 percent of estimated 1983 mine capacity.

Although this outlook is basically not encouraging for the U.S. copper industry, it does not seem that either import relief action or efforts to negotiate restraints on foreign production offer viable methods of redressing this situation. Moreover, it is difficult to see how such measures would significantly promote the adjustment of the U.S. copper industry to foreign competition or enhance its ability to compete in future periods of low world prices. Although the industry appears to have made significant progress in cutting costs over the past few years, its competitive disadvantage vis-a-vis most foreign producers results primarily from the low grade of domestic ores and high labor costs rather than from any lack of technological prowess. New investment in the U.S. copper industry will depend much more on investor perceptions of the long term evolution of the market than on their expectations of government action.

With the exception of Interior, all agencies agree that relief is not in the national interest. I concur in this majority view and recommend that you approve Option 3.

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OPTIONS	PRESIDENTIAL ACTION REQUIRED
Option 1	
Provide import relief in the form of: (a) tariff increase of 5 cents/lb. for 5 years; or (b) a 5-year annual import quota of 425,000 short tons.	Transmit letters by Sept. 14, 1984, to the Speaker of the House and the President of the Senate notifying Congress of your decision to grant relief.
Option 2	
Negotiate voluntary production restraints either: (a) in the context of orderly marketing agreements under Section 203; or (b) outside Section 203 pursuant to your inherent Constitutional authority.	a. Transmit letters by Sept. 14, 1984, to the Speaker of the House and the President of the Senate notifying Congress of your decision to grant import relief and seek OMA's. b. Transmit letters notifying Congress of your decision to deny relief, but to seek voluntary production restraints under your inherent Constitutional authority.
Option 3	
Provide no relief (recommended)	Transmit letters (attached) by September 14, 1984, to the Speaker of the House and the President of the Senate notifying Congress of your decision to provide no relief.

Approve Recommendation (Option 3) ____________________

Disapprove ____________________

(Approve Option ___)

Discuss with me ____________________

Attached for your signature, if you approve Option 3, are:

1. Memorandum to the United States Trade Representative

2. Letters to Vice President Bush and Speaker O'Neill transmitting your decision.