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OFFICE OF THE SECRETARY OF THE TREASURY
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MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT & DEPUTY TO THE CHIEF OF STAFF
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT: Senior Interdepartmental Group on International Economic Policy

Attached are the minutes of the SIG-IEP meeting held on March 14, 1984.

Christopher Hicks
Executive Secretary and
Special Assistant to the Secretary

Attachment

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SENIOR INTERDEPARTMENTAL GROUP-INTERNATIONAL ECONOMIC POLICY

March 14, 1984
11:30 a.m.
Secretary's Conference Room
Department of the Treasury

Attendees:

Treasury
Secretary Regan, Chairman
David C. Mulford

State
Richard McCormack
Mark Palmer

Defense
William Taft
Donald Goldstein

Agriculture
W. Allen Tracy

Commerce
Lionel Olmer

CIA
Maurice Ernst
[redacted]

USTR
Robert E. Lighthizer
William Triplett

NSC
Roger Robinson
David Wigg

White House
Richard G. Darman

Cabinet Affairs
Larry Herbolsheimer

OMB
Alton G. Keel

CEA
Jeffrey Carliner

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Renewal of U.S.-USSR Agreement on Economic, Industrial and Technical Cooperation

The first item on the agenda was renewal of the U.S.-USSR agreement on economic, industrial and technical cooperation. In response to a question from the Chairman regarding the value of the agreement, the response was that it provides a framework for U.S.-USSR business as usual.

Chairman Regan then inquired about the total value of trade outside of food products. Under Secretary Olmer responded that it has not amounted to more than $750 million in recent years but that the business community feels strongly about the agreement with respect to its providing an imprimateur vis-a-vis U.S.-Soviet trade.

Chairman Regan asked, "what are the political advantages to the U.S. for renewing the agreement and would the Soviets want the U.S. to renew it?" The answer provided by State was yes, they do want the agreement renewed. They have asked about it several times in recent months. State proferred that it was a symbolic gesture, that the President said we should not further disassemble the U.S.-USSR bilateral framework in his speech on January 14.

Defense commented that the U.S. is not getting much from this agreement. It has not been "used" in the past five years. U.S.-USSR trade goes forward without it and to go back to the Soviets and say we want to continue this agreement would send the wrong signal.

STR commented that the agreement is "harmless" in their view. There are minor technical concerns under Article II, but in general they believe that cancelling the agreement might hurt U.S. agricultural exports if the Soviets chose to retaliate. On balance, STR felt that the agreement should be renewed if the converse would lead to adverse effects on U.S. grain exports.

The Chairman then asked whether we could have trade in agricultural and chemical products apart from this treaty. The response was yes, but without it, U.S. businessmen could be adversely affected in day-to-day dealings with the Soviets. Since the Soviets can buy what they import from the United States elsewhere, raising the difficulty of trade interaction even slightly could lead to Soviet purchases being redirected away from the United States.

The Chairman then asked at what level the document should be renewed. State responded that the level at which the document is renewed will send a signal to the Soviets regarding broader U.S. intentions. The Chairman then polled those in attendance and noted that the majority voted to renew the agreement. He instructed the Executive Secretary to notify the NSC and to indicate that the level at which we choose to renew the documents will send an "appropriate signal" to the Soviets.

Argentina

Chairman Regan asked Assistant Secretary Mulford to update the Argentine situation, characterizing it as a major crisis which could lead to a possible domino effect in Latin America. Assistant Secretary Mulford began by characterizing Argentine dealings with the IMF as very slow with a lack of focus at the Presidential level, stating that "either they don't care or they don't understand the importance of making progress."

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If Argentine interest arrearages are not cleared up by March 31, it will mean total losses to the U.S. banking community of $300-350 million. The impact on major U.S. banks varies, but for the majority it would mean a "hit on first quarter 1984 earnings" of between 6 and 19 percent. He characterized this possibility as important because it hasn't happened before. In order to discourage Argentina from allowing this situation to develop, Treasury has tried to anticipate this adverse event by sending a letter from Secretary Regan to Argentine Economics Minister Grinspun to inform them of the U.S. position. Treasury believes other Latin American debtors, e.g., Brazil, might misread this defiance and emulate it. The long-term effect could spread beyond the U.S. banking community with unpredictable results.

Under Secretary Olmer asked if it is a law that interest overdue over 90 days must be written off or if it is at the discretion of the bank. Chairman Regan responded that it is the latter, but, if the bank is wrong, regulators will mark down the quality of the bank's assets, which will reflect on bank management. In his opinion, the banks have very little judgment latitude if the amounts are sizable and they have to take a hit on earnings, or worse if they need to reserve against future losses at the end of June.

Chairman Regan indicated that in his letter he told the Argentines that failure to pay would be viewed as flouting traditional banking practices and the banks may retaliate, leading to a cessation of trade financing. Treasury made clear to Grinspun that not paying will precipitate a string of events that will work to their disadvantage.

Assistant Secretary McCormack mentioned that in his conversations with Grinspun it was clear that the Economic Minister did not have much talent on his staff because the bureaucracy is unable to pay anywhere close to private sector wages for qualified professionals. He was under the impression that Argentina was prepared to go to the mats for two years if necessary on the debt crisis, and that other Latin American countries were looking to Argentina to be the phalanx vis-a-vis the creditor banks.

Assistant Secretary Mulford made the point that the Argentines will either slide through the March 31 deadline or they will do it consciously. The Treasury letter was meant to make clear that non-payment will be a conscious act. He further commented that Treasury is concerned about the potential for a split in the banking community as a result of the Argentine situation. He stated that no U.S. banks are gravely at risk at this time but, if a domino effect were to occur, they could be.

Chairman Regan commented that a trade cut-off vis-a-vis Latin America would hurt the U.S. more than our Latin trading partners, and thus we need to strike the best deal we can, but to have the IMF hang-in as tough as possible.

State commented that Argentina is potentially the wealthiest of the major debtors in Latin America and will have the most leverage. Treasury added that Argentine borrowing was in part to finance capital outflows as opposed to development projects and thus is on less firm financial grounds for a stretch-out.

NSC raised the question of possible cross default suits and the need for loan loss provisions. Treasury responded that the cross default problem was not serious at this time.

Treasury commented that the foreign banks see the U.S. over-regulating and creating problems for ourselves. U.S. respondents can use the argument of the potential for spreading financial instability abroad in response to this argument.

State queried whether we can get other Latin American countries to pressure Argentina. Chairman Regan responded that this was a useful suggestion and that perhaps we can use the IDB meeting to accomplish that.

Venezuela

Treasury commented that Mexico and Brazil represent one pattern: a willingness to cooperate. Argentina is in a different category, along with Venezuela which has substantial arrears as well. The Venezuelans are trying to force the banks to lend new money and they are watching the Argentine situation. The difference is that Venezuela is lagging in payments to the U.S. Government, but U.S. agencies are continuing to lend. At present, Venezuela is in arrears to the U.S. Government in the amount of $115 million in direct credits and guarantees. Treasury does not believe we can justify continued provision of new U.S. public credits.

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