83-8436

SENIOR INTERDEPARTMENTAL GROUP-INTERNATIONAL ECONOMIC POLICY

April 28, 1983
4:30 p.m.
Department of the Treasury

Attendees (U)

<u>Treasury</u>
Secretary Regan
Beryl Sprinkel
Marc Leland

<u>Office of Vice Presdient</u>
Admiral Daniel Murphy
G. Philip Hughes

<u>State</u>
W. Allen Wallis
Richard McCormack

<u>Defense</u>
Paul Thayer
James Blaker

<u>Agriculture</u>
Secretary Block

<u>Commerce</u>
Secretary Baldrige
William Archey

<u>Energy</u>
Martha Hesse
William J. Silvey

<u>Transportation</u>
Secretary Dole
Admiral Shear

<u>Interior</u>
Secretary Watt

<u>CEA</u>
William Niskanen

<u>USTR</u>
Michael B. Smith
John Ray

<u>OPD</u>
Edwin Harper
Roger Porter

<u>OMB</u>
Alton Keel

<u>CIA</u>
Henry Rowen
Maurice Ernst

<u>NSC</u>
Roger Robinson
William Martin

<u>International Debt</u> (U)

The Chairman opened the meeting by saying that there would be two items on the day's agenda: an update on the debt situation in a number of countries and the question of Alaskan oil exports. He asked Under Secretary Sprinkel to give an update on the debt situation and indication that the overall situation still remains difficult, but it is being managed. Some highlights of his presentation included: (C)

<u>Argentina</u>. We are trying to assist in an effort to find a solution to the problem of blocked payments of profits and dividends to U.K. firms, but we are not optimistic about a solution. GOA officials have advised us that they have finally received the draft loan agreement from the commercial banks for the $1.5 billion syndicated loan originally planned for completion by the end of March. (C)

Brazil. Brazil's cash flow situation will continue to deteriorate through July or August before improving later in the year. They have once again sought our financial assistance, but we believe that official support at this time would undercut efforts to restore financing from commercial banks. We are in close contact and will continue to monitor the situation. (C)

Chile. We hope that Chile will be back in compliance with its IMF stand-by program by the end of September, due to the emergency economic program announced in late March. These talks with the 12-bank advisory committee are well advanced. Chile and the BIS are currently discussing the possibility of a $300 million arrangement. (C)

Mexico. Secretaries Shultz, Regan and Baldrige held a series of meetings with key members of the Mexican economic team while in Mexico on April 18 and 19. We are encouraged by the talks and plan to continue working with our Mexican counterparts to encourage change in economic policy which we believe to be in their interest. The Mexicans said they needed no additional official assistance at this time and do not expect to need any unless there is a sharp drop in oil prices. They mentioned to us their interest in a rescheduling of official direct and guaranteed credits to the private Mexican sector. We are discussing this informally with USG agencies and other creditor countries. (C)

Venezuela. Venezuela will probably use its SDR holdings and IMF reserve tranche shortly. Finance Minister Sosa told us that the GOV would like to arrange an IMF stand-by for end-1983 or early 1984. It appears that banks have continuing concerns about the GOV's numbers for the size of total external debt and Venezuela's medium-term economic prospects. The GOV is working to address these concerns. (C)

Peru. Finance Minister Rodriquez-Pastor will be in Washington on April 28 and 29 for the Development Committee and will meet with Treasury officials. Peru may request a Paris Club rescheduling in the near future. (C)

Nigeria. Nigeria is being forced to negotiate with the IMF by its inability to obtain sufficient funds from other creditors in the absence of a Fund agreement. Finance Minister Masi is here for the Development Committee and will indicate to the Fund whether or not serious negotiations can begin. The SIG-IEP working group that was established in response to Under Secretary Wallis' presentation on the need for financial support from the U.S. Government has met and will be preparing some options for consideration by the SIG in the next several weeks. (C)

Approved For Release 2008/05/06 : CIA-RDP85M00364R000400570052-2

Alaskan Oil Export (U)

The Chairman then asked Under Secretary Wallis to introduce the report of the Working Group on Alaskan oil export. Mr. Wallis presented the major findings of the report which strongly endorse the desirability of Alaskan oil export from an economic point of view. Restrictions on the export and transport of Alaskan crude create market distortions and interfere with efficient allocation of resources. Removing oil export restrictions will permit the economy to utilize petroleum at a lower cost because of savings in the transportation sector. In addition, these savings will increase the wellhead value of Alaskan oil, making marginal oil fields profitable to develop. Despite the benefits, elimination of the restrictions on oil exports will require a considerable political effort. (C)

The Chairman then asked each agency to vote for one of the options identified in the paper ranging from a complete lifting of the ban to allowing a partial lifting (100-200,000 barrels) of existing plus any new discoveries to an option where only new oil is allowed to be exported. (C)

The following agencies preferred a complete elimination of the ban, although several noted their concern with the political difficulties of achieving this result: State, USTR, Commerce, Energy, NSC, CEA and Agriculture. DOD and OMB preferred to allow only part of existing production plus any new oil to be lifted. Interior, Transportation and OPD opposed any lifting of the ban. (C)

Opponents of lifting the ban pointed to the major political difficulties as well as the negative impact on the maritime industry. The President has twice noted support for the tankers involved in Jones Act trade. Even a partial lifting would require that some seamen are put out of work. Secretary Watt noted that the political sentiment among the public was not there and that it could interfere with our aggressive leasing policies (i.e., tearing up our environment to sell oil to the Japanese). (C)

Proponents noted that overall energy security of the United States would be improved. A partnership relationship with the Japanese in Alaska would enable increased investment flows to develop badly needed infrastructure. Total Alaskan oil production (primarily Prudhoe Bay) is expected to decline beginning in 1986, unless major investments are made now in new fields and infrastructure. In pursuing oil exports, we could also encourage the Japanese to import more U.S. coal and gas. These issues are being considered by the U.S.-Japan Energy Working Group. (C)

The Chairman then asked what action forcing event required a decision to be taken at this time. It was noted that the principal problem is rapidly growing opposition on the Hill. Our supporters need to know where the Administration stands so that they can begin to challenge the well orchestrated opposition. (C)

The Chairman said that he would check with the White House legislative office to have them quietly probe which options, if any, might have a chance of succeeding. While almost all of the group clearly recognized the substantive value of going for a complete lifting of the ban, nobody wanted to get the President out front on an issue he could not hope to win. The Chairman said he also needed to have, if possible, a better idea of what, if anything, could be allowed from the Japanese if they were allowed to import U.S. oil. (C)

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