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OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

February 6, 1985

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MEMORANDUM FOR	OVP	- MR. G. PHILIP HUGHES
	STATE	- MR. NICHOLAS PLATT
	DEFENSE	- COL. R. J. AFFOURTIT
	AGRICULTURE	- MR. RAYMOND LETT
	COMMERCE	- MRS. HELEN ROBBINS
	OMB	- MR. ALTON G. KEEL
	✓CIA	-
	USTR	- MR. DENNIS WHITFIELD
	NSC	- MR. ROGER ROBINSON
	OPD	- MR. LEHMAN LI
	CEA	- MR. WILLIAM A. NISKANEN
	FED	- MR. EDWIN M. TRUMAN
	AID	- MR. MALCOLM BUTLER
	EXIMBANK	- MR. WILLIAM A. DRAPER, III

STAT

Subject: Minutes of the meeting of the IG-IEP on International Debt for January 24, 1985.

Attached are the minutes of the meeting of the IG-IEP on International Debt for January 24, 1985.

Edward J. Stucky
Edward J. Stucky
Acting Executive Secretary

ON-FILE NSC RELEASE INSTRUCTIONS APPLY

Attachment

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Minutes of the IG-Debt Meeting of Janaury 24, 1985

1. Treasury opened the meeting by summarizing the points made in the background papers for each agenda topic. With respect to the first subject, "A Review of the Overall Debt Situation," Treasury's impression was that we had reached a watershed in the evolution of the debt problem with all the major debtors having made progress toward adjustment or at least having committed themselves to the IMF programs that would have that effect if implemented properly. The exception was Nigeria. The problem with major debtors would now be one of whether or not they could remain in compliance with the programs. The outlook for continued growth in the industrial countries, the level of interest rates and inflation was also favorable. Nevertheless, progress was uneven and we might have problems in the future with medium-size debtors like Chile, Peru and Colombia.

2. STR wondered whether there would be sufficient net new bank credit to the debtor countries in view of banks' attitudes. Should we be updating the study made a year ago in which credit availability was projected? In response, the FRB referred to a study in the October issue of the FRB Review which indicated that credit could grow six percent per annum and still be compatible with a reduction in LDC exposure relative to bank capital. As to the general situation, Mexico and Brazil had done better than expected but still faced problems of internal adjustment.

3. On the second agenda item, Treasury said that we had achieved some of our objectives of obtaining a more flexible format which would favor dialogue but there was still resistance to our idea of a simple barebones communique that would not have to be laboriously negotiated in advance. Commerce asked whether we were doing the necessary analytical work for the April Interim and Development Committee meetings. Should not we be planning now what we are prepared to do under various scenarios. State felt it would be difficult to plan ahead but we must keep an open mind. FRB thought the principal issue at those meetings was medium term adjustment of the LDCs. We ought also to take a more liberal view on international trade and he referred to the multilateral trade initiative that is being studied by several agencies. NSC pointed out that in their deliberations issues were always considered from the point of view of their effect on the debt strategy.

4. State asked if anything fundamental had changed in our position and whether we ought to consider some minor concessions. Treasury replied that we ought to maintain our present position which contemplated no concessions. Treasury saw this meeting as having no necessary sequel. Naturally, since we were serious about the need to have a dialogue, discussion could not be pre-cooked. There was always a risk inherent in that situation that something would come out that would have to be considered subsequently.

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5. With respect to the third agenda item "Coordination of Export Credit and Debt Policy", Treasury said that a number of discussions in recent months continue to reveal differences in the willingness of other export credit agencies to cut off credit as debt crises appear or resume cover when countries were taking appropriate adjustment measures. We were seeking practical ways to further our objectives of closer coordination between the debt strategy and export credit policies.

EXIM pointed out that most export credit agencies had traditional operating rules as exemplified in the meetings of the Bern Union. They wanted to avoid criticism and pursued a somewhat narrow definition of self-interest. Treasury wondered whether this was not a topic for the spring meetings, something which would show U.S. policy in a more favorable light. Others noted that it might be useful to talk to other countries extending credit before we decided what to do.

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Executive Secretary

22 Jan 85
Date

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OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

January 22, 1985

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MEMORANDUM FOR	OVP	- MR. G. PHILIP HUGHES
	STATE	- MR. NICHOLAS PLATT
	DEFENSE	- COL. R. J. AFFOURTIT
	AGRICULTURE	- MR. RAYMOND LETT
	COMMERCE	- MRS. HELEN ROBBINS
	OMB	- MR. ALTON G. KEEL
	CIA	- [redacted] STAT
	USTR	- MR. DENNIS WHITFIELD
	NSC	- MR. ROGER ROBINSON
	OPD	- MR. LEHMAN LI
	CEA	- MR. WILLIAM A. NISKANEN
	FED	- MR. EDWIN M. TRUMAN
	AID	- MR. MALCOLM BUTLER
	EXIMBANK	- MR. WILLIAM A. DRAPER, III

Subject IG-IEP on International Debt

Papers are attached for the three agenda items of the meeting that Assistant Secretary David C. Mulford will chair on Wednesday, January 23, at 2:00 p.m. in room 4426 of the Main Treasury Building:

1) A review of the overall LDC debt situation

2) Objectives for the Interim and Development Committee Meetings in April

3) Coordination of export credit and debt policy

Christopher Hicks
Executive Secretary and
Executive Assistant to the Secretary

Attachments

ON-FILE NSC RELEASE INSTRUCTIONS APPLY

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Trends in the Situations of Selected Major Borrowers

The purpose of this note is to examine the LDC debt problem by summarizing the changes in positions of eleven major borrowers, nine of whom have had debt restructurings. They have all relied heavily on bank borrowing. In 1984, there were widespread but uneven improvements in the group. For almost all of the problem debtors external balances narrowed and export revenues accelerated. Most had a much better per capita growth record compared to 1983. Banks negotiated several important rescheduling agreements which have or will clear-up most of their arrearages. Among the most notable were the agreements with Argentina and the Philippines with their associated IMF stand-bys and the multi-year reschedulings for Mexico, Venezuela, and Ecuador that will make basic changes in their bank debt amortization profiles in the next four to six years.

Looking ahead, the outlook in 1985 is for deceleration in export growth (reflecting less rapid growth in the OECD countries), acceleration in import growth (due to more rapid economic growth in the LDCs), and higher interest payments. Even though average interest rates are likely to be somewhat lower, the prospects for significantly lightening debt burdens this year are poor except where major reschedulings have taken place. It is perhaps for that reason that the banks continue to be reluctant to increase LDC exposure.

The improvements in debtor external imbalances are due to the combination of the strength of the OECD recovery, especially in the U.S., which fueled LDC exports and of macro-economic adjustment policies that restricted imports and encouraged exports. Problem debtors with a more diversified export base that include manufactures and which adopted strong adjustment policies earlier, such as Brazil, Mexico and Yugoslavia, enjoyed the most robust growth in exports and import substitution. While the rate of increase of exports for both Mexico and Brazil should decline in the near term, from rates of 24% and 16% in 1984 to 9% and 4% in 1985 respectively, past gains will allow for more stimulative domestic policies leading to a resumption of significant increases in per capita GDP after three years of stagnation. Inflation rates, however, remain stubbornly high in all of these countries.

Most other problem debtors, however, have not enjoyed such dramatic and fundamental improvements. Countries such as Chile and Venezuela whose exports are based narrowly on a few primary commodities will continue to have slowly growing exports as long as commodity prices remain weak. Other countries such as Argentina, Colombia, Morocco, Nigeria, Peru, and the Philippines have hesitated to adopt adequate adjustment measures. For 1985, except for Mexico and Brazil, the likely pattern is one of small or no improvements compared to the previous year.

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Financial trends are also mixed. The six-month LIBOR for Eurodollars, which serves as the benchmark for most LDC loans, reached a 1984 high of 12.6% in July but subsequently declined. The projection is for an average of 10% in 1985 compared to 11% in in 1984 and 9.8% in 1983. Each one percentage change in LIBOR saves or costs our sample of countries approximately $2 billion.

Banks remain very reluctant to increase voluntarily their claims on developing countries except for a few East Asian countries. Aggregate credit statistics are not very precise, yet all series indicate that bank credit to non-oil developing countries will show relatively little increase in 1984, and this trend should continue. Recent indications from the major money center banks suggest an increase of only 2% in credits to non-oil developing countries in the next few years.

Several important financial agreements between debtors and private creditors were reached during the past year. Argentina and the Philippines both successfully negotiated IMF agreements. The Argentine agreement brings the most reluctant of the large debtors back into an orderly and established financial relationship. Many observers are sceptical, however, whether Argentina has the political will to meet the guidelines prescribed in their IMF accord. Nigeria unilaterally issued note to supplier creditors and will begin payment on them in 1985. And it is mandatory that these countries conscientiously strive to meet the conditions spelled out in the IMF agreements, if they expect the assistance of the creditors in meeting their obligations.

Ecuador, Mexico, and Venezuela reached multi-year rescheduling agreements on their public sector debts to banks in 1984, while Brazil and Yugoslavia are expected to negotiate similar agreements in 1985. Mexico had $48 billion in principal falling due over the next six years rescheduled, of which about half had been previously rescheduled in 1983. Ecuador and Venezuela rescheduled $4.5 billion falling due over five years and $20.75 billion falling due over six years, respectively. Repayment periods of the restructured principal for each country varies from 12 years for Ecuador and Venezuela to 14 years for Mexico.

LIBOR remains the benchmark interest rate for the Ecuadorian and Venezuelian debt and replaces the prime rate as the benchmark for most of the rescheduled Mexican debt. This will provide interesr savings to Ecuador and Mexico because the spreads over LIBOR they must pay on the rescheduled debt were narrowed. In Ecuador's case, the spread will be 1 3/8 percent over LIBOR in comparison to the 1984 refinancing with 1 3/4 percent over LIBOR; Ecuador expects to save $200 million in interest payments over the next five years. About half of the $300-500 million Mexico expects to save in interest each year through 1989 is due to the switch in benchmark from prime to LIBOR. Under its rescheduling, the spread over LIBOR Venezuela must pay is generally higher than its past experience has shown.

Even with the savings mentioned, however, total interest payments will remain heavy. For example, Mexico's interest payments will remain in the range of $10 - $12 billion annually.

Over the next five years, principal repayments on Mexico's total public debt will drop 80 percent and only 40 percent of Venezuela's debt will be repaid compared with three-quarters due prior to the rescheduling. Consequently, the cash flow for these countries will improve since principal obligations for each country will be more favorably distributed and extended into the future. In terms of cash flow, Mexico, with its obligation to repay 12 percent of the restructured principal over the next five years faired better than Ecuardor and Venezuela, who must repay 22 percent and 23 percent, respectively, over the same period. Mexico also established the lowest interest spread, averaging 1 1/8 percent, for a series of reschedulings. It was equalled by Venezuela, but Ecuador had to pay 1 3/8 percent.

To conclude: The crisis element in the debt situation has clearly receded in the course of 1984. The immediate prospects of further improvement are modest, given the moderate trend of exports in the OECD area and the continuing high level of real interest rates. The LDCs will need, therefore, to continue to persevere in their economic adjustment efforts. Three of the major debtors, Brazil, Mexico and Venezuela, have consolidated the improvement of the past 18 months. However, improvements to date have been largely in their external positions. If this improvement is to be sustained, it needs to be buttressed by greater efforts to deal with domestic economic problems, e.g., inflation and budget deficits. Others such as Argentina and the Philippines have just begun while Peru, Nigeria and Colombia are groping towards acceptable measures for internal adjustment.

External and Domestic Economic Indicators for Selected Privately Financed Important Debtors

	Per Capita Real GDP			Exports of Goods and Services		
	1983	1984(e)	1985(f)	1983	1984(e)	1985(f)
	(Annual Percentage Increase)					
Argentina	1	1	-2	0	9	10
Brazil	-5	0	3	4	24	9
Chile	-2	4	1	-6	-3	5
Columbia	-1	0	0	-19	7	13
Mexico	-8	0	2	-5	16	4
Peru	-14	1	-1	-8	1	4
Venezuela	-8	-5	-1	-9	6	5
Korea	8	6	5	7	12	7
Philippines	-1	-8	-2	5	-5	11
Yugoslavia	-2	0	3	14	12	n.a.
Nigeria	-8	-1	n.a.	-19	8	6
Morocco	-2	1	0	-1	10	9

(e) estimate
(f) forcast
n.a. not available

Source: "Economic Outlook", IDN/OASIA

PROFILES OF MULTI-YEAR RESCHEDULING AGREEMENTS (MYRAS)

	Ecuador	Mexico	Venezuela
		(in billions of dollars)	
Amount Rescheduled	4.5	48.5 of which: 20 not previously rescheduled 23 rescheduled in 1983 5 jumbo loan made in 1983	20.75
Number of years consolidated	5	6	6
Type Debt	Public sector	Public Sector	Public Sector
Date of Agreement	December 1984	September 1984	September 1984
TERMS:			
Payback Period	12 years	14 years	12 1/2 years
Grace Period	3 years	1 year on $20 billion rescheduled in 1983	n.a.
% Repaid in First 5 yrs.	22%	12%	23%
Interest Rate Benchmark	LIBOR	LIBOR	LIBOR
Spread Over Benchmark	1 3/8	1985-86 7/8 1987-91 1 1/8 1992-98 1 1/4	1 1/8
Rescheduling and Other Fees	n.a.	None	None
Effective Date	1985	1985	1985

n.a. not available

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Spring Meetings of the Interim and Development Committees

Discussion

The Interim and Development Committees will meet in April to discuss prospects for adjustment, growth and development in the medium-term. The U.S. views the meetings as an opportunity for a frank exchange of views on the issues, not as negotiations aimed at generalized solutions to the debt problem. Attention thus far has focused on the format of the meetings, in particular U.S. proposals to maximize open discussion of the issues. Arrangements that meet some U.S. objectives should be finalized in the near future.

On matters of content, preliminary discussions of work programs and agendas promise ample opportunity for discussion of the issues raised by the United States. This will include the likely medium-term world economic and financial environment and the policy options available to both developed and developing countries to promote economic growth and development.

The discussion should highlight the policy choices most likely to promote prosperity in the developing world over the medium-term, including continued structural adjustment, steps to liberalize the trading system, and efforts to improve the environment for private investment and resource flows. A major effort will be required to maintain the focus on policy rather than on short-term financial concessions for the LDCs which would undermine their commitment to adjustment and exacerbate their debt servicing problems.

Background

At last September's Interim and Development Committee meetings, Secretary Regan called for a special session of the two Committees in the spring of 1985 to permit a dialogue between developed and developing countries on the conditions necessary to move beyond adjustment to sustainable payments positions and and stable growth in the medium term.

The frank policy dialogue the U.S. seeks requires free and open discussion. Opportunities for such discussion would be extremely limited within a format of set speeches and long negotiated communiques. Treasury has proposed a new approach including some joint discussions involving both Committees, open debate led by discussion leaders, and a minimal, descriptive communique.

Treasury has approached the management of the Fund and Bank and our G-10 partners seeking support for this new approach. Secretary Regan met with the Chairmen of the two Committees on January 14 to elicit their support. There has been only limited support for a joint session of the Committees (a joint dinner with some substantive discussions has been proposed as an alternative) but open discussion has been strongly supported.

A format that meets some U.S. objectives should be finalized in the near future. Attention can then turn to the content of the meetings. A continuing concern will be pressure in the Development Committee for a detailed and substantive communique which may include differences of view among participants on key issues.

Introduction

Export credit and insurance policies of many OECD governments have often been at cross purposes with the accepted debt strategy by remaining on cover longer than is prudent for economies that are deteriorating, and by becoming more restrictive or suspending cover for LDCs that have agreed to adjustment programs with the IMF and are seeking debt relief through rescheduling. The U.S. and a few other creditor governments, recognizing that such policies not only give wrong signals to debtors and private creditors but also compound the debtor's liquidity squeeze, have sought to promote a more coordinated response by creditors that is supportive of the debt strategy. In particular, the United States objective is to correct the most flagrant counterproductive practices by getting commitments from other OECD governments to:

(1) maintain or resume export credit cover in countries adopting "appropriate" adjustment measures, generally with IMF support, notwithstanding rescheduling of outstanding credits and,

(2) achieve better coordination in reducing or restricting credit to countries who fail to deal promptly with their debt and payments problems.

The U.S. has also pressed, despite the strong objections of other governments, to obtain commitments from others to provide a fair share of financial assistance and fulfill implicit pledges arising from special multi-year financing packages, like the one recently adopted for Argentina. These issues have been discussed in various multilateral fora, most recently at the December meeting of the OECD's Export Credit Group.

Background

Decisions of export credit and insurance agencies regarding cover are generally determined case-by-case on the basis of competitive factors and commercial prudence. Country risk assesment is, therefore, a basic task of these agencies which take into account important changes in a debtor country's economic performance and its debt servicing capabilities and record. Closeness of political and commercial, ties as well as the degree of exposure also influence decisions. The net result has been a general tendency to maintain cover too long during the build-up of debt problem and then to terminate cover abruptly at least for long- and medium-term credits when the problem becomes overt through a request for rescheduling of debts and an approach to the Paris Club. A resumption of cover has frequently been postponed, at least until a rescheduling had been completed by signing the bilateral agreement, and sometimes even longer, e.g., until financial recovery seemed assured and there was only a remote risk of a further rescheduling. The existence of these policies has now been throughly documented through discussions in the OECD's Export Credit Group and by a survey conducted by the IMF. A summary of current policies of other creditors is attached.

When multilateral financial packages were organized for Mexico it was recognized that prevailing export credit insurance practices were counterproductive to debt relief efforts. That became even clearer as the LDC debt crisis unfolded. When it was realized that the IMF alone could not remedy the LDC debt crisis, it was concluded that creditor country governments and private financial institution should cooperate with the IMF in providing new credits to countries seeking debt relief. The major benefits of a coordinated and comprehensive extraordinary financing arrangement are that it: (a) assures access to credit for the debtor country so it can continue to import priority goods, (b) attracts additional commercial bank financing, and (c) assists successful implementation of domestic adjustment programs. Annunciation of the debt strategy in the Williamsburg Declaration following the 1983 Summit helped in fostering more coordinated and supportive policies by official export credit agencies.

International Discussion

Besides the Summits at Williamsburg and London there have been several discussions of actual policies and proposals for coordination in the Paris Club and the OECD. The Export Credit Group considered that subject in their meetings in 1983 and 1984. As a result of the Export Credit Group discussions, there will be an exchange of information on cover policies of members at the March meeting. Last July the Working Party three discussed the role of export credit agencies in the current debt situation basing its discussion on a short paper prepared by the Secretariat (Export Credit Insurance and Debt Service Problems). Treasury Under Secretary Sprinkel specifically proposed that WP-3 ask the Export Credit Group to develop guidelines in this area and to report back to it.

The IMF, at the suggestion of the U.S. and other G-5 members (Britain, France, Germany, Japan), undertook a comprehensive study of export credit cover policies of ten major official export credit agencies in connection with payments dificulties. Its report, with which Treasury and EximBank concur, has now been issued to the IMF Board and distributed to NAC agencies (SM/84/272, December 18, 1984). It highlights the importance of maintaining financial flows to countries which have undertaken adjustment efforts and the crucial role of export credit agencies in this process. It also documents quantitatively the practice of export credit agencies of maintaining cover during the crisis build-up phase and going off-cover when debtors agreed to undertake appropriate adjustment policies. A subgroup of the G-5 Deputies, the G-5 Debt Deputies at the Assistant Secretary level, has also been active in proposing elements for a more coordinated strategy and procedures for their implementation. The objective is to eliminate the most flagrant counterproductive practices by a prudent approach that could be implemented step-by-step and on a case-by-case basis.

Treasury Proposal for Coordinating Cover Policies

Specifically, export credit and insurance agencies should try to reach agreement on the triggers for a resumption of cover. Those triggers should be:

(1) approval of and compliance with an IMF standby or EFF which signals country adherence to appropriate adjustment policies and,

(2) mobilization of a critical mass of commerical bank and multilateral agency financing.

Approval of an IMF program is a prior condition for a Paris Club rescheduling of medium- and long-term official credit. There should be agreement in principle that medium- and long-term cover will be resumed as soon as the multilateral rescheduling agreement has been concluded, recognizing that agencies may be somewhat cautious and proceed step-by-step in granting approvals in the first few months. When short-term credit has also been suspended, cover should be restored at an earlier date, at the beginning of the Paris Club discussions which would be after IMF approval of an adjustment program, because under established Paris Club policy short-term credits are not rescheduled. The Export Credit Group should be the mechanism for coordination because national delegations are composed both of Treasury and Export Credit agency delegates representing both points of view in dealing with the problem.

More coordination is also needed in reducing or restricting cover during early phases of a crisis situation in order to give proper signals. However, in implementing this, export credit agencies must be especially cautious so as to guard against the possibility of creating even greater financial difficulties by a sudden joint termination of cover. Agreement on coordination will be more difficult to achieve because of competitive aspects of export credit policy. Nevertheless, members of ECG must be prepared to identify emerging problem situations and discuss the appropriateness and timeliness of imposing cover conditions or restrictions step-by-step. They should provide appropriate signals to problem borrowers at an early date and progressively reduce cover as deemed necessary. In order to encourage coordination to the extent possible in each situation, export credit agencies should be willing to report all changes in their cover policies for problem countries.

Attachment

Export Credit Policies

United Kingdom has recently revised its export cover policies so as to be supportive of our debt strategy and considers new cover as the most potent weapon to pressure debtors into adopting acceptable adjustment programs. However, the U.K. strongly opposes "gapology" and credit pledges. In appropriate cases it will be ready to maintain cover or resume it at an earlier stage to support credit for goods which would contribute to economic recovery of the debtor country. This more flexible attitude will only be considered for countries making strenuous efforts under a strong IMF adjustment program. Credit will be directed toward supporting imports if required for: a) maintenance of existing export earnings/import savings industries, or b) completion of partially completed projects which will contribute to economic recovery, or c) a limited number of new key captial projects expected to produce early benefits to the balance of payments. More difficult, but just as important is to coordinate restrictive policies towards undeserving countries. On the appropriate mechanism, the U.K. supports regular, confidential exchange of information on major problem countries in the ECG with objectives of achieving a closer alignment of export credit policies. The G-5 Debt Deputies should continue to act to provide preliminary informal consultations by telex or as a "hot wire" in cases of urgency.

France also favors better coordination. Discussion of taking a country off cover has to be very secret, for which the G-5 Debt Deputies is suitable mechanism. Resumption of cover need not be handled so confidentially and might be discussed in the Paris Club sometime after a multilateral rescheduling had been concluded.

Japan follows a perverse policy by suspending export cover even for short-term credits immediately after a Paris Club rescheduling and waits until there are signs of economic recovery before reopening credit coverage to a country. Even then there are often strict limits on the contract value of MITI's cover. After considerable urging from the U.S., Japan eventually made satisfactory new export credit commitments for the Brazil and Mexico packages. Ministry of Finance insists that MITI acts independently in reaching decisions on export insurance and is unenthusiastic about coordination. It favors the French suggestion of consulting first in the Paris Club and later exchanging views in the ECG.

FRG is also unenthusiastic about coordinated export credit policy because the government does not control the insurance agency. While Germany has followed a restrictive policy it has also continued or promptly reopened short term cover, and is prepared to resume medium and long-term cover after conclusion of a Paris Club rescheduling. Germany has also participated in special export credit packages for Yugoslavia, Mexico and Brazil.

Austria: Where a country seeks a rescheduling they sometimes stop cover but usually continue cautiously when the bilateral agreement is finalized.

Belgium: Where a problem country approached the Paris Club; cover for medium and long term credits are suspended and can include short-term credits if they too are rescheduled. Cover is resumed if the outlook is promising.

Canada: Practices are similar to those in the U.S. i.e., have temporarily gone off cover for some countries but have retained coverage for those whose governments have cooperated in the IFIs. It would not be useful to align export credit policies and there are limits on how much such policies can ease balance of payments difficulties.

Denmark: Currently they are the first export credit agency to withdraw cover and among the last to resume, i.e., have waited 1-2 years following a Paris Club rescheduling. Now considering policy changes to react earlier when rescheduling is imminent and reopen earlier after it has been concluded.

Italy: Automatic removal of cover when a country requests a rescheduling and a wait-and-see approach on resumption.

Norway: Normally goes off cover for a rescheduling until the bilateral agreement is signed.

Switzerland: Suspends at least medium and long term cover during the rescheduling negotiations and promptly resumes cover after an IMF Standby Agreement rather than waiting for conclusion of the rescheduling agreement.

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Executive Secretary
18 January 1985
Date

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MALCOLM BUTLER
WILLIAM H. DRAPER, III

Debt

rill chair a meeting of
lay, January 23, at 2:00
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Christopher Hicks
Executive Secretary and
Executive Assistant to the Secretary

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

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January 15, 1985

MEMORANDUM FOR	OVP	- MR. G. PHILIP HUGHES
	STATE	- MR. NICHOLAS PLATT
	DEFENSE	- COL. R. J. AFFOURTIT
	AGRICULTURE	- MR. RAYMOND LETT
	COMMERCE	- MRS. HELEN ROBBINS
	OMB	- MR. ALTON G. KEEL
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	AID	- MR. MALCOLM BUTLER
	EXIMBANK	- MR. WILLIAM H. DRAPER, III

Subject IG-IEP on International Debt

Assistant Secretary David Mulford will chair a meeting of the International Debt IG-IEP on Wednesday, January 23, at 2:00 p.m. in room 4426 of the Main Treasury Building. The agenda will be:

1) A review of the overall LDC debt situation

2) Objectives for the Interim and Development Committee Meetings in April

3) Coordination of export credit and debt policy

Attendance will be principal (Assistant Secretary equivalent or designee) only.

CH

Christopher Hicks
Executive Secretary and
Executive Assistant to the Secretary

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SUSPENSE ____________ Date

Remarks Please provide comments for passage to Treasury, by 1500 hrs, 16 Jan 85.

OK TD

FOR Executive Secretary

14 Jan 85
Date

3637 (10-81)

STAT

Executive Registry
85- 188

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

January 11, 1985

MEMORANDUM FOR OVP - DONALD P. GREGG
STATE - NICHOLAS PLATT
DEFENSE - R. J. AFFOURTIT
JUSTICE - J. MICHAEL SHEPHARD
AGRICULTURE - RAYMOND LETT
COMMERCE - HELEN ROBBINS
OMB - ALTON J. KEEL, JR.
CIA - [redacted] STAT
USTR - DENNIS WHITFIELD
NSC - ROBERT KIMMIT
JCS - MASTER SGT ORR
CEA - WILLIAM NISKANEN
OPD - LEHMANN LI
WH - CRAIG FULLER

Subject: Interagency Group on International Economic Policy (IG-IEP)

Member agencies have reached agreement on a SIG-IEP report on extraterritorial application of U.S. laws. In accordance with the procedures agreed to by the SIG-IEP, Secretary Regan will submit to President Reagan the report along with letters from the President to Executive Branch and independent regulatory agencies.

Attached for your review and comment are draft transmittal letters from the President to relevant agencies. A copy of the interagency cleared report is also attached.

Please submit your comments on the draft letters to Frank Vukmanic at 566-2386 by c.o.b. Wednesday, January 16.

CH

Christopher Hicks
Executive Secretary and
Executive Assistant to the Secretary

Attachments

ON-FILE NSC RELEASE INSTRUCTIONS APPLY

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CONFLICTING REQUIREMENTS ("EXTRATERRITORIALITY") MANAGING THE PROBLEM

I. INTERNAL COORDINATION

A. Where U.S. actions which impinge upon foreign jurisdictions are contemplated, comity calls for us to consider the potentially conflicting sovereign interests, laws or policies of those jurisdictions in deciding whether and how to act. This is also required by our need to have foreign cooperation on export, law enforcement, and other international matters and to avoid unnecessay harm to our bilateral relations. It is Executive Branch policy to do so.

B. As a general matter, each Executive Branch agency with regulatory or law enforcement responsibilities which proposes to take actions with extraterritorial impact has primary responsibility to assure proper consideration of such foreign interests, laws or policies.

C. An agency which proposes to take an action which is directed at conduct abroad and which it has reason to believe has significant potential for raising concerns over extraterritoriality on the part of a foreign state1/ will notify and consult with the Secretary of State or his designee, subject to the constraints imposed by the relevant

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1/ As a general rule, this category would not include such matters as: action taken under established working arrangements with the competent authorities of foreign governments, whether in law enforcement generally, or under specific arrangements such as tax or customs agreements; routine license denials under clearly established foreign assets, munitions control or re-export control guidelines where the agency concerned knows of no factors which indicate special foreign government concerns; actions taken by officers stationed abroad within established country-team arrangements with the foreign government concerned; and actions relating to the requirements for doing business in the United States, such as quality or labelling requirements for goods to be sold here.

legal and operating requirements.2/ This category of action would include significant statements of official U.S. views on extraterritoriality or conflicting requirements, the requirements of international law or comity in such matters, or foreign government interests or positions regarding them. The consultation is intended to assist the agency in considering the foreign interests, laws or policies, alternatives to unilateral action, and means to minimize difficulties.

D. Notice and consultation procedures should ensure against undue operational burdens3/ or delays, duplication of existing arrangements and the introduction of improper considerations into the administration of the responsibilities of the respective agencies. The normal minimum time for notification should be five working days in advance of the proposed action.

E. Agencies will notify the Secretary of State or his designee, or the Chief of the U.S. Diplomatic Mission, of investigative activity proposed to be carried out by U.S. officials or agents in a foreign jurisdiction for which the consent of the foreign government has not yet been obtained.

2/ Operating requirements would generally preclude notice of actions which are both high volume and of largely *de minimis* potential for creating extraterritoriality problems, such as export license pre-clearance inquiries or tax inquiries mailed to a person abroad. Meaningful coordination may be limited or precluded, in certain cases, by: grand jury, tax information and other legal secrecy requirements; concern for human life or safety; time constraints and the need to avoid disclosures which might prejudice litigation, investigation, or sensitive sources and methods.

3/ For operational reasons, the Department of Justice would not set up procedures to identify for consultation civil or criminal law enforcement matters handled outside of Department of Justice Washington headquarters, but would identify for consultation matters handled or considered in Washington, such as the Export Administration Act, including its antiboycott provisions, munitions control, International Emergency Economic Powers Act, Trading With the Enemy Act, neutrality laws, anti-trust (under existing procedures), and the enforcement of off-shore subpoenas for documents in jurisdictions likely to object to such actions.

F. Such coordination will not affect the legal responsibilities and authorities of the notifying agencies.

II. NOTIFICATION OF FOREIGN GOVERNMENTS

A. The United States will implement the understanding on notice and consultation regarding U.S. actions which impose conflicting requirements on multinational enterprises, reached within the O.E.C.D., and will apply the same general considerations and practical approaches to other governmental actions which have significant potential for raising concerns in friendly nations regarding conflicting requirements or extraterritoriality.

B. The United States, accordingly, is prepared to:

1. Develop mutually beneficial, practical and appropriately safeguarded bilateral arrangements, formal or informal, for notification to and consultation with other friendly governments. Such arrangements would take into consideration the needs and concerns of both countries, as appropriate.

2. Give prompt and sympathetic consideration to requests for notification and bilateral consultation on an ad hoc basis by a country which considers that its interests may be affected by a United States measure with extraterritorial effect.

3. Inform the other appropriate concerned countries as soon as practicable of new legislation or regulations proposed by the Administration which have significant potential for conflict with the legal requirements or established policies of those countries and for giving rise to conflicting requirements being imposed on persons or firms in their territory. As appropriate, the United States will seek consultations to discuss with other countries mutual interests in such areas as security, export control, law enforcement and business regulation. Such consultations could provide a forum for discussing mutual security, political, legal and other concerns.

4. Give prompt and sympathetic consideration to requests by friendly countries for consultations under multilateral arrangements in appropriate cases.

5. Give prompt and full consideration to proposals which may be made by other countries in bilateral or multilateral consultations that would lessen or eliminate conflicts.

C. Under arrangements for notification or consultation through the Department of State regarding action of another agency, the consent of that other agency will be required.

D. Where appropriate, notice and consultation arrangements would be negotiated in the context of efforts to secure enhanced cooperation with foreign governments in meeting U.S. objectives. In particular, it is the policy of the United States to seek mutual assistance arrangements in law enforcement and to further that policy through the inclusion of bilateral arrangements for notice and consultation.

III. LEGAL EFFECT

This statement of policy, including the provisions regarding internal consultations and notification of and consultation with foreign governments, is intended solely for the guidance of the departments and agencies of the United States Government with regulatory or law enforcement responsibilities. It is not intended to, does not, and may not be relied upon to create any substantive or procedural rights enforceable by law by any party in any civil or criminal proceeding.

EXECUTIVE SECRETARIAT

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SUSPENSE ________ Date

Remarks

JBC
Executive Secretary
8/31/84
Date

3637 (10-81)

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

Executive Registry
84-6175/2

August 30, 1984

MEMORANDUM FOR	OVP	- MR. G. PHILIP HUGHES
	STATE	- MR. CHARLES HILL
	DEFENSE	- COL. JOHN STANFORD
	AGRICULTURE	- MR. RAYMOND LETT
	COMMERCE	- MRS. HELEN ROBBINS
	OMB	- MR. ALTON G. KEEL
	CIA	- MR. THOMAS B. CORMACK
	USTR	- MR. DENNIS WHITFIELD
	NSC	- MR. ROBERT KIMMITT
	OPD	- MR. LEHMAN LI
	CEA	- MR. WILLIAM A. NISKANEN
	FED	- MR. EDWIN M. TRUMAN
	AID	- MR. MARK L. EDELMAN
	EXIMBANK	- MR. WILLIAM H. DRAPER, III

Subject: Interagency Group on International Economic Policy (IG-IEP)

Assistant Secretary David Mulford will chair a meeting of the International Debt IG-IEP on Thursday, September 6, 3:30 p.m., in room 4426 of the Main Treasury Building. A discussion paper and agenda for this meeting will be distributed shortly.

Attendance will be principal (Assistant Secretary equivalent or designee) only.

Edward J. Stucky
Christopher Hicks for
Executive Secretary and
Executive Assistant to the Secretary

ON-FILE NSC RELEASE INSTRUCTIONS APPLY

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EXECUTIVE SECRETARIAT

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SUSPENSE ____________
Date

Remarks

[redacted]

STAT

Executive Secretary

8/16/84
Date

3637 (10-81)

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

Executive Registry
84-6175/1

August 15, 1984

UNCLASSIFIED
(with Secret Attachment)

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
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
CHAIRMAN, FEDERAL RESERVE BOARD
PRESIDENT, EXPORT-IMPORT BANK
ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

Subject: IG-IEP on International Debt

Attached are papers for discussion at the meeting of the IG-IEP on International Debt on Friday, August 17. The material on Argentina must be closely held.

Christopher Hicks
Executive Secretary and Executive
Assistant to the Secretary

ON-FILE NSC RELEASE INSTRUCTIONS APPLY

UNCLASSIFIED
(with Secret Attachment)

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EXECUTIVE SECRETARIAT

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SUSPENSE ____________
Date

Remarks

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D/ Executive Secretary

04/4/84
Date

3637 (10-81)

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

Executive Registry
84- 6175

August 14, 1984

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
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
CHAIRMAN, FEDERAL RESERVE BOARD
PRESIDENT, EXPORT-IMPORT BANK
ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

Subject: IG-IEP on International Debt

Assistant Secretary David Mulford will chair a meeting of the International Debt IG-IEP on Friday, August 17, 3:00 p.m., in Room 4426 of the Main Treasury Building. Discussion papers for this meeting will be distributed shortly. The agenda will be:

1) Review of progress under the international debt strategy;

2) Individual country developments -- Argentina, Mexico and Brazil;

3) Future IG work program.

Attendance will be principal (Assistant Secretary or equivalent) only.

Christopher Hicks
Executive Secretary and Executive
Assistant to the Secretary

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