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Executive Secretary
9 Oct 85
Date

Executive Registry
85- 3417/1

THE WHITE HOUSE
WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 10/7/85 Number: ----- Due By: -----

Subject: Economic Policy Council Minutes:

September 5, 6, 9, and 11 meetings

	Action	FYI		Action	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	CEA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Vice President	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
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REMARKS:

Attached for your information are the minutes of the following Economic Policy Council meetings:

- September 5
- September 6
- September 9
- September 11

RETURN TO:

- Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)
- Don Clarey
- Rick Davis
- Ed Stucky



L-300B

MINUTES
ECONOMIC POLICY COUNCIL

September 6, 1985
2:00 p.m.
Roosevelt Room

Attendees: Messrs. Baker, Block, Baldrige, Brock, Yeutter, Sprinkel, Wright, Boggs, Burnley, Kingon, McFarlane, Oglesby, McAllister, Khedouri, Danzansky, Low, Mulford, Smart, Smith, Stucky, and Wallis.

1. Trade Policy Strategy

Secretary Baker stated that the purpose of the meeting was to review the House Republican trade proposals and possible Administration trade legislation.

Ambassador Yeutter reviewed the House Republican proposals noting that the Administration has already enacted many of them or is including them in our trade statement. Strengthening the Foreign Commercial Service, requiring ambassadors to provide annual reports on their embassies' export expansion strategy, decontrolling exports of technology already available overseas, and improving cooperation on international financial issues are either a part of the Administration's trade strategy or consistent with it.

Ambassador Yeutter pointed out that the House Republicans proposed to amend the Export Administration Act to permit the export of Alaskan oil. Mr. Boggs noted that if Alaskan oil were exported to Japan, our bilateral trade deficit with Japan would be reduced by \$15 billion, but our overall merchandise trade deficit would remain the same because we would import oil from Mexico and Venezuela to make up for the Alaskan oil that would be going abroad. Secretary Baldrige stated that the Export Administration Act requires the Commerce Department to study the feasibility of exporting North Slope oil by April 1986. Mr. Burnley stated that exporting Alaskan oil would be strongly opposed by the maritime industry, raising both budgetary and national security questions. Mr. Boggs also noted that sales of oil may raise an anti-Japanese reaction in the United States.

The Council noted that the Administration is studying several of the proposals offered by the House Republicans, including improving the effectiveness of policies designed to assist workers displaced by imports and creating a broad based bipartisan commission on trade. The Council also noted that the Administration would oppose several of the House Republican proposals, including requiring the United States Trade Representative to take actions against countries declining to participate in a new round of multilateral negotiations;

Minutes
Economic Policy Council
September 6, 1985
Page two

delegating Presidential authority under Sections 201 and 301 to the United States Trade Representative; and changing Section 201 into an unfair trade remedy, which it is not now.

Ambassador Yeutter reviewed several legislative initiatives that might be part of a possible Administration trade bill. These included: seeking authority for a new round of trade negotiations; extending our non-tariff barrier authority, seeking authority to reduce tariffs, and seeking authority to offer compensation to other countries when the U.S. increases tariffs. Mr. Yeutter also stated that Administration legislation might better protect intellectual property rights by protecting against trade in articles that infringe U.S. process patents, extending the patent term for agricultural chemicals, and eliminating Freedom of Information Act abuses by giving affected companies notice and an opportunity to oppose release of their business confidential information.

Ambassador Yeutter stated that several other components of possible legislation might be improving the antidumping and countervailing duty laws by substituting a predictable pricing test for non-market economies, establishing a dispute settlement deadline on Section 301 cases, and establishing a fast track procedure for Section 201 cases on perishable agricultural items.

The Council's discussion focused on the advisability of the Administration proposing our own trade bill, likely Congressional allies, and the possibility that the bill might be expanded to such a degree that the President would have to veto it.

The Council also discussed the possibility of seeking a bipartisan commission on trade. Mr. McFarlane suggested that such a commission might help us resist protectionist legislation in the short term as a consensus develops about the long term agenda. He stressed that it is important that the United States and the President be in a strong position going into the Gorbachev summit. Several Council members expressed support for the commission as a long term approach, but questioned whether the commission would have a short term effect.

The Council briefly discussed how to communicate the President's trade policy, weighing the advantages and disadvantages of a televised speech.

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Received ER, 1345, 6 Sep 85.

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Executive Secretary

6 Sep 85

Date

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THE WHITE HOUSE
WASHINGTON

Executive Registry
85-3417

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 9/6/85 Number: 316980CA Due By: _____

Subject: Economic Policy Council Meeting - September 6, 1985

2:00 P.M. - Roosevelt Room

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Vice President	<input type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
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REMARKS:

The Economic Policy Council will meet today at 2:00 P.M. in the Roosevelt Room.

Attached are two additional background papers for this meeting.

RETURN TO:

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| <input type="checkbox"/> Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing) | <input type="checkbox"/> Don Clarey
<input type="checkbox"/> Rick Davis
<input type="checkbox"/> Ed Stucky |
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THE WHITE HOUSE

WASHINGTON

September 6, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: EUGENE J. McALLISTER *EM*

SUBJECT: Agenda and Papers for Today's Meeting

The agenda and paper for today's meeting of the Economic Policy Council are attached. The meeting is scheduled for 2:00 p.m. in the Roosevelt Room.

The single agenda item is the Administration's trade policy strategy. The working group on trade policy strategy has prepared two papers: an analysis of the House Republicans' trade policy proposals and a description of the major initiatives the Administration might seek through a trade bill. Both papers are attached.

THE WHITE HOUSE

WASHINGTON

ECONOMIC POLICY COUNCIL

September 6, 1985

Roosevelt Room

AGENDA

1. Trade Policy Strategy

TRADE OPTIONS FOR HOUSE REPUBLICANS

House Proposals

1. Amend the Export Administration Act to ease restrictions on forming export companies as a way to help small businesses, also improving the process of obtaining export licenses.
2. Provide better protection of the rights of legitimate U.S. inventors by penalizing a foreign country which without authorization makes and sells a product that has a U.S. patent.
3. Through technical amendments to FOIA, require owners of proprietary information filed with the Federal Government to be given the opportunity to challenge requests under FOIA before that info is released.
4. Amend Export Trading Company Act of 1982 to permit groups of companies to improve pooling their resources in setting up export companies.
5. Amend the Export Administration Act to permit sale for export of Alaskan North Slope oil. Sale of such oil to Japan would reduce the U.S. merchandise trade deficit with Japan by \$15 billion per year.
6. Propose a new Reagan Round of trade talks (which the GATT Council is expected to approve on September 10) and give United States Trade Representative the authority to pursue specific reciprocal measures by the U.S. such as removing duty free import status from particular developing countries

Administration Position

1. Forming export companies is covered in House proposal 4; helping small businesses obtain export licenses would not require legislation, but the Administration could support an amendment to showcase its efforts in this regard.
2. Administration supports this principle and any Administration package would likely include provisions on intellectual property rights.
3. Administration supports; this amendment would be included in any Administration package that might be developed.
4. The Export Trading Company Act of 1982 already permits groups of companies to pool resources to establish export trading companies.
5. Administration supports, but strong maritime industry opposition makes it politically very sensitive.
6. Administration supports new negotiating authority, but opposes any authority or requirement to take actions against countries that decline to participate in such negotiations.

- 2 -

House Proposals

Administration Position

unless the developing country participates in new GATT negotiations. Such talks should focus on violations of intellectual property rights such as patents, trademarks, copyrights and trade secrets, trade in services, trade related investment issues (such as eliminating performance requirements), and it should negotiate a code on international information flows.

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| 7. Review performance and strengthen personnel of the Foreign Commercial Service in the Commerce Department which represents small businesses in negotiations with foreign governments and companies. | 7. Administration does not oppose, but notes it duplicates ongoing review. |
| 8. Require U.S. ambassadors to provide annual reports on their embassies' annual export expansion strategy and their annual accomplishments in helping U.S. industry to improve its market position relative to its overseas competitors. | 8. Administration supports this concept, although legislation is not required to implement it. |
| 9. Improve Agriculture Department use of the "2 billion dollar war chest" for export enhancement (Bicep). | 9. Present guidelines are under continual review to ensure their greatest possible effectiveness. |
| 10. Increase number of Customs Service agents. | 10. Administration will review this proposal in the next budgetary process. |
| 11. Provide relief from export disincentives by amending the Foreign Corrupt Practices Act of 1977. Clarify liabilities of foreign agents and make accounting provisions clearer. | 11. Administration has long supported relief from such export disincentives, and proposed a bill that has foundered in the Congress. |

House Proposals

Administration Position

- | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12. Decontrol exports of technology already available overseas (Apple II computers which are on the DOD list of controlled technologies, can be purchased anywhere). | 12. Such decontrol is already provided for in the Export Administration Act of 1985, and the Department of Commerce is in the process of implementing it through regulations. |
| 13. Direct the Eximbank to devise a competitive U.S. approach to the mixed credit financing offered by other nations until negotiations result in a satisfactory reduction of this practice. | 13. This is already being accomplished. |
| 14. Create a semiprivate nonprofit U.S. export promotion organization managed by representatives from the business community with the support of state and local government trade development groups (financed by private contributions and user fees) designed to support companies new to export marketing. | 14. This unnecessarily duplicates existing export promotion activities. |
| 15. Create a bilateral free trade area with Canada (similar to the one we now have with Israel) to show that the U.S. hopes to keep its borders open and plans to move ahead with other free trading countries. | 15. Administration has served the ball to Canada; we anticipate a response from the Canadian Government in the next 30 days. |
| 16. Amend the Trade Adjustment Assistance Act to provide displaced workers with lumpsum payments earmarked for job retraining. Also include incentives for private industry to retrain workers and to administer the Act. | 16. This is under review by an EPC working group; the Secretary of Labor will make specific proposals on trade adjustment assistance. |
| 17. Permit individuals to withdraw savings from IRAs for employment retraining without penalty. | 17. This will be reviewed by an EPC working group. |

- 4 -

House Proposals

18. Permit displaced workers to enroll in employment training programs without penalizing their ability to receive unemployment compensation.
19. Call for a broad-based bipartisan Business/Labor/Congressional Commission on Trade to re-evaluate trade laws on the books in the context of current economic conditions consistent with Section 135 of the 1984 Trade Act which provides for private sector cooperation in determining trade problems.
20. Call for new international monetary conference (Secretary Baker has endorsed) in an effort to improve cooperation on international financial issues. Among the items to consider is a Common Market type of currency between the U.S., Japan and Canada to decrease the disparity between the yen and the dollar. Cite new August 1985 CEO study showing that more than 80 percent of trade deficit is due to overvalued dollar. Encourage linking trade and monetary policies in meetings with our major trading partners.
21. Re-evaluate IMF and World Bank practices of giving funds to countries who subsidize exports which penetrate U.S. markets (East Germany, Chile, Zaire and Zambia which export copper).
22. Amend Section 301 of Trade Act so that USTR, if it determines that a foreign country is unfairly targeting a product, should suspend benefits of trade concessions to carry out

Administration Position

18. This will be reviewed by an EPC working group.
19. This will be reviewed by the EPC at the September 6 meeting.
20. The concept is acceptable, but the wording should be taken from the EPC paper on this subject.
21. This is already covered under existing law.
22. In proposals 22 through 24, the Administration opposes delegating authority from the President to the U.S. Trade Representative. The

- 5 -

House Proposals

trade agreements or direct customs officers to impose import restrictions on goods or assess fees or impose restrictions on services of such a country for a given period of time.

All such actions would be subject to Presidential veto.

23. Amend Section 201 of Trade Act so that USTR has final authority to grant temporary import relief to injured industries following investigations by the ITC to determine whether trade in a particular good has been affected by foreign government actions and the extent to which the U.S. is the focal point for exports of such an article. The USTR will then negotiate with the country to establish more equitable, fair and nondisruptive patterns of trade in such an article.
24. Encourage USTR to take further specific Section 301 actions that emphasize U.S. willingness to retaliate against unfair overseas trade practices where necessary, including the removal of duty-free import status from the offending nation's top two export commodities upon confirmation of illegal trade practices.

Administration Position

targeting issue is addressed in the Administration's trade policy statement.

23. Same comment concerning delegation of authority as above. Administration opposes this option, which would subvert Section 201 into an unfair trade remedy, which it is not and should not be.
24. Same comment concerning delegation of authority as above. Administration is already vigorously enforcing Section 301 through self-initiated investigations.

September 6, 1985

POSSIBLE ADMINISTRATION LEGISLATIVE PROPOSALS

The Administration trade package could include a legislative initiative. In addition to acceptable proposals in the House Republican trade package, the Administration initiative could include the following elements:

1. Trade Negotiating Authority.

An Administration bill would provide comprehensive legislative authority to support its trade negotiating initiatives, including:

- authority for a new round of negotiations, already endorsed by the President in his State of the Union message and actively pursued within the GATT;
- extension of our non-tariff barrier authority, which otherwise expires January 3, 1988;
- authority to reduce tariffs; and
- authority to offer compensation to other countries when the U.S. increases tariffs (through Congressional action or Customs reclassification), to avoid unilateral foreign retaliation against U.S. exports.

2. Intellectual Property Rights.

We should also provide further protection to intellectual property rights (patents, copyrights or trademarks), including:

- protection against trade in articles that infringe U.S. process patents;
- extension of the patent term for agricultural chemicals to match that for pharmaceutical inventions; and
- termination of Freedom of Information Act abuse by giving affected companies notice and an opportunity to oppose release of their business confidential information.

3. Improving the Antidumping and Countervailing Duty Laws.

Because the antidumping law does not work for non-market economy (NME) countries and the countervailing duty law currently is not applied to them, we need to substitute a predictable pricing test (along the lines of one proposed by Senator Heinz). We should also effect less significant revisions to those laws, including:

- clarification of standing requirements to file a petition;
- elimination of two-tiered judicial review, and limitation to one appeal of agency decisions to the Court of Appeals for the Federal Circuit;
- revision of the "critical circumstances" standards so that more timely relief can be provided more often;
- limited application of the injury test for countries not party to the Subsidies Code (or equivalent agreements);
- codification of existing Administration practice regarding provision of the injury test in counter-vailing duty cases to less developed countries; and
- other technical amendments proposed by the Administration last year but not enacted at that time.

4. Section 301.

Two amendments to section 301 would include:

- enactment of a 24-month deadline on dispute settlement; and
- provision of extensions at petitioner's request.

5. Section 201.*

We could usefully amend section 201 in two ways:

- provision of some type of "fast track" procedure for perishable agricultural items; and
- promotion of structural adjustment, by requiring the International Trade Commission to assess the petitioning industry's prospects for adjustment to changing conditions of competition.

*/ Some in the TPRG noted that proposing amendments to section 201 in particular may aggravate the risk (already inherent in any Administration trade package) of inviting protectionist riders.

6. Statement of National Trade Policy Objectives.

The preface to any Administration trade bill would be a clear, forceful statement of the Administration's trade policy objectives.

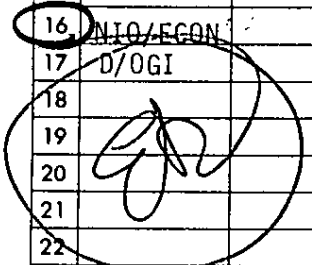
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SUSPENSE _____
Date

Remarks
This is the memo Jim Baker sent to the President as background for this afternoon's EPC meeting. (This copy was obtained from SedDef's office.)

STAT

Executive Secretary
9 Sept. 85
Date

Executive Registry

85- 3426

THE WHITE HOUSE
WASHINGTON

September 6, 1985

MEMORANDUM FOR THE PRESIDENT

FROM: THE ECONOMIC POLICY COUNCIL
SUBJECT: Trade Policy Strategy

The Economic Policy Council has devoted considerable time and effort in developing an Administration trade policy strategy. The Section 301 unfair trade investigations you are initiating, as well as the proposal to establish a "war chest" to discourage unfair foreign trade subsidies are products of the Council's efforts to pursue your commitment to free and fair trade.

In developing the strategy outlined below, we have drawn upon all available resources, including the initiatives developed by House Republicans. We are pleased to note that in many substantive areas, their work parallels our own.

Macro-Economic Policies

1. The U.S. must recognize the adverse impact of excessive government spending and budget deficits, the recent strength of the dollar, and government regulations on the U.S. trade deficit.
2. The President's tax reform proposal is essential to strengthening the economy and making U.S. businesses more competitive in international markets.
3. The U.S. will encourage its trade partners to adopt policies that will accelerate their economic growth by urging Bonn Summit participants to act on their commitments to remove rigidities and imbalances in their economies. The U.S. will continue to use discussions of the economic situation and policies of major countries undertaken by IMF and OECD to pursue this strategy. In particular, the October IMF annual meetings provide an opportunity in quiet talks and formal sessions to encourage others to strengthen their domestic growth. This Administration is not seeking old-fashioned "pump-priming" increases in government spending, but rather policy shifts such as expenditure reductions, tax reform, and financial market liberalizations which permanently

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increase growth opportunities. Such policies and actions by our trade partners will contribute to a gradual strengthening of their currencies and will enhance U.S. exports.

Ensure Free and Fair Trade

- 1. The Administration remains unequivocally committed to free and fair trade and will continue vigorously to promote an open trading system through negotiations aimed at improving trade rules and increasing market access.**
- 2. The U.S. will vigorously pursue its trade rights and interests under U.S. law and the GATT, and will see that other countries live up to their obligations and trade agreements with the U.S.**
- 3. The Administration will continue vigorous enforcement of U.S. antidumping and countervailing duty laws.**
- 4. In the past, the U.S. has initiated Section 301 unfair trade cases only in response to formal petitions for action from U.S. industries. The Administration will, as appropriate, also self-initiate such cases to address foreign unfair trade practices.**
- 5. If you approve the EPC proposal, Exim bank will be directed to begin an aggressive targeted mixed credit lending policy. At the same time the Administration will seek a \$300 million appropriation for grants to support up to \$1 billion in mixed credit loans. These initiatives will continue until the elimination of predatory mixed credit competition from our trading partners is accomplished through negotiation.**
- 6. Competition in international trade should involve business firms, not government treasuries. This calls for the diligent negotiation of international rules on export subsidies, a high priority endeavor of this Administration. Where such rules are absent, inadequate, or unsatisfactory in their implementation, the U.S. will vigorously protect its legitimate market share against the subsidy programs of other nations.**
- 7. The Administration will take tactical measures aimed at eliminating unfair foreign trade practices and opening foreign markets, if efforts**

to resolve such issues through consultations fail. The denial or limitation of access to the U.S. market may be a necessary step in this process.

8. The Administration supports the market-opening objectives of equitable access legislation but will oppose legislation that would require the President to close U.S. markets on the basis of sectoral reciprocity. Rather, the Administration prefers legislation that gives the Administration authority to negotiate foreign barrier reductions.
9. The Administration will increase efforts to protect intellectual property rights (patents, copyrights, trademarks); we will accelerate work with a view toward possible Administration initiatives in this area.
10. The Administration will seek to give owners of proprietary information the right to challenge requests for this information under the Freedom of Information Act.
11. The United States will continue market-oriented sector selective (MOSS) discussions with Japan. However, time limits will be placed on existing sector discussions, at the end of which specific commitments will be evaluated and follow-up procedures began. New sectors will be added that offer the promise of expanded U.S. exports.
12. Follow-up of the 1984 yen-dollar report liberalizing Japan's financial markets and internationalizing the yen will continue.
13. The Administration will follow up on its reports to the Congress on the subject of foreign industrial targetting, by continuing to examine the potential problems created by foreign targetting and, where appropriate, possible remedies.

Promote U.S. Exports

1. The U.S. will seek to redress the trade deficit through increasing exports instead of restricting imports. A good example of this is the \$2 billion export enhancement program (BICEP).
2. The Administration will work with private sector advisory groups (e.g., the President's Export

Council) to improve export promotion and to help companies look at global markets.

3. The Administration will evaluate Federal export promotion activities during the fall budget review to improve their effectiveness.
4. The Administration will again seek legislation to remove the export disincentives in the foreign corrupt practices act.
5. The Administration will increase its program of aiding state governments interested in promoting export activities through state agency activity.

Promote Multilateral and Bilateral Trade Negotiations

1. There is a great need for a more comprehensive, disciplined and effective system of world trade rules. The system needs fixing.
2. The Administration will maintain efforts to launch a new GATT round based on U.S. objectives already-agreed upon internally.
3. The Administration will examine possible bilateral and purilateral negotiating opportunities, both to improve market access and fairer trade and promote wider interest in the multilateral negotiating process.
4. If so requested by the Government of Canada, we would be prepared to work with the Congress in exploring the possibilities of a free trade arrangement.

Import Relief

1. The Administration is committed to market-based solutions to trade problems at home and abroad, but occasional exceptions, in the form of relief from import competition may be necessary.
2. Import relief, if appropriate, should be transparent, temporary, time-specific, decline over the period of relief, and lead to greater competitiveness.
3. The Administration will review existing worker assistance programs in order to assure that they promote an effective human adjustment policy which contributes to the maximum capacity for change.

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mobility, and increased productivity. This review will include an assessment of: (a) training and retraining programs - sponsored by government, labor, and business - on a comprehensive and continuing basis; and (b) employment service, job bank, training, and relocation support for displaced workers in order to minimize human cost and the loss of valuable skills.

National Security

1. The Administration reserves the right to respond to foreign economic conditions and imports that threaten industries essential to our long-term national security.
2. The Administration will vigorously enforce our export control laws to prevent transfers of sensitive and critical technology of military significance to potential adversaries. At the same time, the Administration recognizes the reality of foreign availability and the importance of our reputation as a reliable supplier. We are also aware that future technical advances by U.S. industry depend on maintaining the widest possible access to foreign markets and on fostering the widest exchange of scientific information.

International Finance

1. We need to strengthen and improve the operation of the international monetary system, as an essential framework for international trade and a more productive and growing global economy. The United States has been working with the Group of Ten major industrial countries to develop recommendations for improving the international monetary system, which will be considered by the IMF Interim Committee in October. These represent important steps in the right direction and should be implemented. But more also needs to be done. In particular, we must work cooperatively with other nations to adopt policies which will help assure greater international economic stability.

To this end, the United States is prepared to consider the possible value of hosting a high-level meeting of the major industrial countries, in order to review the various issues involved in transforming the findings of the Group of Ten into appropriate action. Such a special meeting could build on the G-10 studies by

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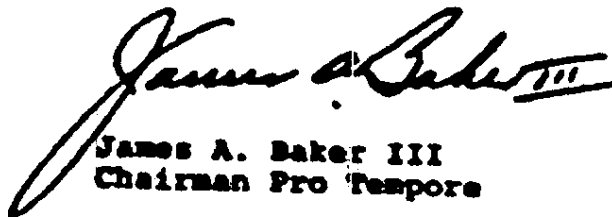
considering, in a cooperative fashion, the policies and performance in the major industrial countries, and how these can be improved to promote convergence toward non-inflationary growth.

Trade and Debt

1. The Administration will encourage debt-burdened LDCs to reduce government impediments to the functioning of markets in their economies, encourage production through market incentives to their business firms and employees, and substitute capital for debt by encouraging both domestic and foreign investment. These steps will enhance economic growth, thereby increasing debt repayment capabilities and also expanding U.S. export opportunities.

Regulatory Policies

1. The Administration is reviewing, and will seek to amend, if warranted, anti-trust laws or regulations that impede our international competitiveness.
2. The Administration will consider trade implications when reviewing proposed regulations and when developing further deregulation initiatives. The Administration will use the trade leverage created by its deregulatory process to seek to open foreign markets, thereby minimizing the problem of free rides for foreign suppliers.



James A. Baker III
Chairman Pro Tempore