

EXECUTIVE SECRETARIAT

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Remarks

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Executive Secretary

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THE WHITE HOUSE
WASHINGTON

ATTACHMENTS

Executive Registry

Trade Negotiations

CABINET AFFAIRS STAFFING MEMORANDUM

5-3331

SSP/RS

Date: 9/3/85 Number: 316980CA Due By: _____

Subject: Economic Policy Council Meeting - September 5, 1985

2:00 P.M. - Roosevelt Room

ALL CABINET MEMBERS	Action	FYI		Action	FYI
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Justice	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	McFarlane	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Svahn	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Chew (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>	Ricks	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Chief of Staff	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Executive Secretary for:	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CIA	<input type="checkbox"/>	<input type="checkbox"/>	DPC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>	EPC	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
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REMARKS:

There will be a meeting of the Economic Policy Council on Thursday, September 5, at 2:00 P.M. in the Roosevelt Room.

The agenda and background papers are attached.

RETURN TO:

Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

Don Clarey
 Rick Davis
 Ed Stucky

Associate Director

THE WHITE HOUSE

WASHINGTON

September 3, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: EUGENE J. McALLISTER *EM*

SUBJECT: Agenda and Papers for the September 5 Meeting

The agenda and papers for the September 5 meeting of the Economic Policy Council are attached. The meeting is scheduled for 2:00 p.m. in the Roosevelt Room.

The first agenda item is a proposal to establish a \$300 million "war chest" for tied aid credits, to be used as negotiating leverage to eliminate foreign predatory tied aid credits. A paper prepared by the Treasury, outlining the proposed war chest, is attached.

The second agenda item is a plan for a multi-pronged negotiation strategy. At the May 16 Economic Policy Council meeting, the President approved a three-pronged trade negotiation strategy: multilateral, plurilateral, and bilateral. The Working Group on General Trade Negotiation Strategy has outlined an operational "road map" for implementing this strategy. A paper describing this road map is attached.

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THE WHITE HOUSE

WASHINGTON

ECONOMIC POLICY COUNCIL

September 5, 1985

Roosevelt Room

AGENDA

1. Tied Aid Credits
2. Trade Negotiation Strategy

War Chest for Tied Aid (Mixed) CreditsSummary of Recommendation

The United States needs a credible threat to bring France to the negotiating table on improving discipline on tied aid (mixed) credits. As an interim step, immediately following EPC approval, Eximbank will begin aggressively offering tied aid credits to capture traditional French markets, drawing down its capital and reserves. To minimize these losses, the Administration will seek legislation as quickly as possible to establish a "war chest" of appropriated monies to increase our negotiating leverage to eliminate predatory tied aid credits. The war chest should be structured as an offensive trade weapon to be used between now and the French elections in March, but we should avoid creating a tied aid credit entitlement program for U.S. exporters. This initiative would show that the Administration is concerned and prepared to take an aggressive stance. By encouraging a war chest, however, we will be triggering potential budgetary costs of \$300 million, which will require a supplemental appropriation.

Rationale for a War Chest

- A war chest would be an important, aggressive trade policy initiative by the Administration to counter congressional perceptions that the Administration "has no trade policy." Strong congressional support is expected.
- U.S. competitors, notably France, are increasing the use of tied aid credits to promote exports and penetrate markets. The number of tied aid credit offers with low grant elements has doubled since 1982, and the OECD predicts the amount of such offers will increase to \$6 billion in 1985.
- In spite of the OECD Ministerial mandate to increase discipline over tied aid credits, it is becoming increasingly evident that the European Community will not be prepared to accept a significant increase in the minimum permissible grant element. Even the resolve of our "allies" (UK, FRG, Canada) is weakening.
- Selective matching under existing Eximbank and USAID programs does not present a credible threat to the French. In the past, both agencies have been reluctant to authorize tied aid credits because costs are borne either by USAID's budget or by Eximbank's capital and reserves.

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Office Trade Finance
Decl on August 29, 1986

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- As an interim measure, Eximbank is now prepared to aggressively target French markets, drawing down its own capital and reserves until legislation appropriating monies for a tied aid credits war chest is passed.
- Since Congress is expected to introduce its own version of a war chest this fall, an Administration war chest proposal would shape the outcome and preempt efforts to establish a tied aid credit entitlement program.

Potential Risks of a War Chest

- An Administration proposal for a war chest could contribute to the protectionist momentum in Congress, perhaps becoming the "Christmas tree" for other protectionist trade legislation.
- A credible war chest will require appropriations of \$300 million (without fiscal year limitation) and may be perceived as undermining Federal budgetary discipline.
- Congress may be tempted to decrease funds available for bilateral and multilateral (i.e., MDB) development assistance programs in favor of a war chest for tied aid credits.
- We will be temporarily expanding the tied aid credit war in international trade.
- U.S. exporters will likely lobby to transform any war chest proposal into an entitlement program for big business, even if we are successful in getting tighter discipline.

An Effective, but Controllable War Chest

- Maximization of negotiating leverage requires:
 - (a) a credible threat. A \$300 million war chest in appropriated monies (without fiscal year limitation), used as grants in combination with Eximbank or private sector loans, could support up to \$1.0 billion in tied aid credit authorizations.
 - (b) targeting. The war chest should target France. There is no need to tell France it is being targeted as our intent will soon become apparent. The war chest should not be used to match precisely tied aid credits from all countries; precise matching leaves the trade advantage with the initiating country.
 - (c) an offensive war chest: The United States should use a war chest (i) to initiate tied aid credits in sectors and

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markets of particular importance to France, (ii) in a matching situation, to overmatch (i.e., outbid, rather than match precisely) offers by other governments in order to cause them to match us, thus increasing their cost of tied aid credits.

-- Avoidance of an open-ended entitlement program requires:

(a) Clearly defined purpose. The purpose of a war chest should be explicitly tied to negotiations for increased discipline, and not to the protection of U.S. exporters.

(b) Treasury control. Treasury (as lead agency in the negotiations) should control the use of the war chest, with the advice of the agencies in the National Advisory Council on International Monetary and Financial Policies.

(c) Sunset provision. The program should end on a specified date (September 30, 1987) unless expressly renewed.

(d) Limitations on matching. The war chest should never be used for exact matching. Exact matching may support U.S. exporters, but is not sufficiently painful to our competitors to advance negotiating objectives.

-- The budgetary impact could be limited by:

(a) Funding the war chest through a direct appropriation to the Department of the Treasury, rather than to Eximbank or USAID. This approach would avoid undermining the primary functions of these organizations, i.e., to promote exports and to promote development respectively.

(b) Using a grant structure. The war chest would be structured as grants (to be blended with normal Eximbank financing) rather than an interest rate buy-down program, in order to minimize the long-term impact on the budget. On a net present value basis, an interest-rate buy-down and a grant are exactly the same. Since appropriations are done on a nominal basis, however, a grant now will always cost considerably less than buying down the interest rate throughout the maturity of the loan.

(c) Citing projected savings in Eximbank's net outlays. Recent budgetary savings caused by a decrease in Eximbank's net outlays are sufficient to cover a war chest from a budgetary perspective and thus limit the risk of depleting other development assistance programs. The drop in demand for Eximbank's regular export financing has decreased Eximbank's net outlays by about \$1.0 billion since 1984.

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The FY 86 budget, which authorizes direct lending up to \$1.2 billion (with a reserve of \$600 million), has further reduced net outlays by an additional \$1.7 billion during the next three years.

-- To increase negotiating leverage until a war chest is enacted, the following interim tied aid credit policy should be implemented:

(a) Announcement of the Administration's War Chest Proposal as part of this autumn's legislative initiatives.

(b) Aggressive Eximbank tied aid credits against France. Until the war chest is enacted, Eximbank should aggressively target tied aid credits against the French, either by overmatching French offers, or initiating such credits. In the interim, these credits could be funded from the Bank's capital and reserves. Our immediate objective is to ensure that France will have difficulty winning even one competitive deal between now and their March elections.

(c) Until the war chest is enacted, selective use of USAID concessional financing in conjunction with Eximbank financing targeted against France.

Attachment

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Office Trade Finance
Decl on August 29, 1986

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MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: WORKING GROUP ON GENERAL TRADE NEGOTIATION STRATEGY
SUBJECT: Action Plan for Multi-pronged Trade Policy Strategy

At the May 16 EPC meeting, the President approved a trade policy strategy consisting of three basic elements: (1) the launching of a new round of multilateral trade negotiations -- as the highest priority, (2) the organization of plurilateral negotiations in certain sectors if full GATT participation cannot be obtained, and (3) the pursuit of bilateral/regional negotiating opportunities. The EPC requested that a Working Group be established to further elaborate that strategy.

This memorandum, which was prepared by that Working Group, provides a sort of operational "road map" of the actions which should be taken to implement this strategy -- both in terms of international initiatives and internal preparations.

The basic relationship between the three elements of the multi-pronged strategy is as follows:

The strengthening of the multilateral trading system, through the initiation of a new round of multilateral trade negotiations, is our highest priority. Plurilateral negotiations should be subordinated to broader, multilateral approaches but we should be prepared to explore them where the GATT, or a significant part of the GATT membership, is unwilling to deal effectively with issues of major significance to the United States. Our bilateral negotiating efforts should both parallel and stimulate our multilateral initiatives -- by improving U.S. access to foreign markets, by providing for a greater degree of multilateral trade negotiations than is possible in multilateral negotiations, and by spurring currently reluctant countries to greater support for multilateral liberalization.

Multilateral Negotiations

We should seek to meet the following timetable for the opening of the new trade round: (1) convening of a special session of the Contracting Parties in September 1985 to begin formal GATT discussions of the content, structure, and timing of the new round; (2) a commitment by GATT members at the regular November session of the Contracting Parties to a new round along with the establishment of a formal preparatory group and general agreement on a "critical mass" of agenda items; and (3) completion of the work of the GATT Preparatory Group by late spring with the opening of negotiations in mid-1986.

- o At this point, the most serious obstacle to meeting this timetable is the obstructionist tactics of a group of developing countries led by India and Brazil. Along with our Quad partners, we have launched a diplomatic offensive to ensure that we have the necessary votes to convene a September meeting of the GATT Contracting Parties. USTR should develop, through the interagency process, a comprehensive action plan to build international support for our new round objectives and to ensure that the India/Brazil faction is not successful in blocking new round progress. The Seoul meeting of the Trade Ministers, which can be held when needed, and the scheduled 1986 meeting of the Quad will also provide key opportunities for advancing this plan.
- o An enormous amount of preparation will be required to conduct new round negotiations effectively. USTR will be developing, through the established interagency structure, detailed position papers on all issues proposed for inclusion either by the United States or other countries. These papers should clearly define U.S. objectives in each area and outline a strategy for their achievement. This strategy should include a plan for the coordination of bilateral and plurilateral efforts and a consideration of the leverage available to the United States -- including the use of U.S. trade laws and other actions to advance our objectives. These papers should be completed by the end of the year.
- o As part of the above exercise, a U.S. position on the structure and agenda of the new negotiation will also be developed. In particular, we need to consider whether to propose a new process of "rolling negotiation," which would allow the introduction of new subjects at a later stage in the multilateral negotiations and the conclusion of the various elements of the negotiations at different times. The ways in which plurilateral and bilateral negotiations can be linked to the achievement of our multilateral objectives also needs to be considered. A decision on the Administration's basic stance with regard to rolling negotiations will be needed at a relatively early stage in New Round discussions -- and, in any case, prior to the November GATT meeting.
- o A major effort must be made to develop domestic support for a new round. Key elements of this effort are a new statement of overall U.S. trade policy (currently being reviewed by the EPC); development of an Administration response to initial private sector comments on the new round (now being prepared by USTR); and close consultation with the private sector and Congress in the development of the detailed new round position papers. An important factor in building domestic (and international) support for a new round will be the Administration's success in articulating macro economic policies conducive to the promotion of free

trade -- especially with respect to third world debt, exchange rate problems, and the promotion of convergent of national economic policies.

- o We need to consider when to seek new legislation for the new round. The Administration will need tariff-cutting authority and an extension and expansion of existing negotiating authority on non-tariff barriers. However, we will be facing major Congressional efforts to enact protectionist legislation. A policy-level review of our Congressional strategy for the new round should be conducted this fall.

Plurilateral Negotiations

- o Further work needs to be done in developing the possible shape of plurilateral sectoral agreements for such areas as services, investment, high tech, and intellectual property. This will be undertaken in the preparation of the interagency position papers.
- o Given our preference for the multilateral approach, a decision on plurilateral sectoral initiatives at this time would be premature. This question should be reviewed, at the latest, following the November GATT meeting with the aim of determining whether it is appropriate to launch any such initiatives at that time.

Bilateral/Regional Initiatives

- o Further opening of the Japanese market should continue to be our number one priority. The progress of the MOSS approach should be evaluated prior to the anticipated meetings between Secretary Shultz and Minister Abe (September) and the President and Prime Minister Nakasone (October). A final evaluation of MOSS should be undertaken by the end of the year; if it proves unsatisfactory, alternative approaches should be considered.
- o Efforts to improve access to the markets of our major trading partners, especially Taiwan, Korea, and Brazil, and their treatment of intellectual property, should also have a high priority. In some cases, self-initiation of Section 301 cases should be considered as a means of putting additional pressure on these countries. USTR should develop an interagency agreed list of bilateral issues with the principal NIC's on which the United States should exert maximum pressure in 1986.
- o The renewed and revised GSP program will also provide a useful tool for U.S. objectives in the area of improved market access and intellectual property protection. Review of this program and of the national policies of beneficiary countries is required to be completed by the end of 1986.

- o We expect to receive a proposal from the Canadian Government on the negotiation of a free trade arrangement (FTA) this fall, possibly as early as mid-September. USTR will conduct an interagency examination of the economic value of such an agreement to the United States, the areas such an agreement should cover, and the timetable for negotiations with the aim of presenting this issue for policy-level discussion at an appropriate time this fall.

If it is agreed to move ahead with FTA negotiations, the House Ways and Means and Senate Finance Committees must be notified under Section 102 of the Trade Act of 1974. If they do not disapprove such negotiations within 60 days, the Administration may proceed. Thus, negotiations could begin by the end of the year.

- o In February 1983, then-USTR Brock proposed that ASEAN and the United States explore the phased elimination of all barriers to trade between them. It is possible that the ASEAN countries may present us with a proposal for moving ahead in this area; they appear to be thinking of an "umbrella" agreement covering such areas as services, with parallel (and reciprocal) tariff agreements negotiated separately with each of the six ASEAN countries. We will need to examine their proposal and decide how to proceed.
- o At this point, the Administration need not make a decision on other possibilities for FTA-type arrangements. However, we should be able to articulate our general policy with respect to such arrangements. It is recommended that the attached draft statement of this policy be approved. This statement might be used as part of an Administration pronouncement on negotiations with Canada in September or in the context of a more general statement on trade policy.
- o Because Mexico is not a GATT member and there is no formal mechanism governing our commercial relations with that country, we are seeking to negotiate a framework of principles and procedures for trade and investment. Congressional and private sector consultations will begin in the near future; we should seek to conclude the negotiation by early 1987.
- o Bilateral relations with the EC are likely to focus on crisis management, tariff negotiations resulting from the enlargement of the Community to include Spain and Portugal and the coordination of new round policies and strategies. Trade liberalization outside the framework of the new multilateral trade round will, therefore, be difficult. The U.S. should, however, seek to engage the EC in a more constructive dialogue aimed at reducing impediments to, or distortions of, our bilateral trade (for example, in the telecommunications sector).

Draft USG Statement on FTA's

While our highest priority remains the improvement of the world trading system through a new round of multilateral trade negotiations, the United States remains interested in the possibility of achieving further liberalization of trade and investment through the negotiation of bilateral free trade arrangements such as the one recently concluded with Israel. We believe that, under certain circumstances, such agreements could complement our multilateral efforts and facilitate a higher degree of liberalization, mutually beneficial to both parties, than would be possible within the multilateral context.

The United States will give careful consideration to any serious proposal to enter into the negotiation of such agreements. The paramount factor in evaluating such proposals will be their economic value to the United States; we will not pursue any agreement which is not clearly in our economic and commercial interest. Deliberations on these proposals will also be guided by the need to respect our GATT obligations. Finally, the prospects for significant progress in a new round of multilateral trade negotiations will also influence our deliberations on such bilateral initiatives.

In the case of Canada, the Administration has examined the criteria set forth above and believes that further exploratory talks are warranted. Both governments have announced their intention to pursue such talks. (Note: Assumes statement would be released after an announcement is made on Canada.) Other possibilities will be considered on a case-by-case basis.

The Administration will consult closely with Congress and with representatives of the private sector before making any decision with respect to prospective bilateral free trade agreements and it will notify Congress of its intentions in accordance with Section 102 of the Trade Act of 1974.