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THE WHITE HOUSE
WASHINGTON

May 26, 1981

MEMORANDUM FOR RICHARD DARMAN
FROM: RICHARD V. ALLEN *RA*
SUBJECT: Ottawa Summit Trade Paper

The NSC staff provided comments to USTR on the Ottawa Summit trade paper. I have attached a copy of these comments.

In our view, the trade paper is acceptable but certainly not the leadership brief on trade that the US should be putting forward. It may be too late to do further work on this paper, but we would recommend that some of the more free-trade-oriented language of the U.S. statement on trade policy be worked into this paper.

The middle paragraph on p.2 should be strengthened by adding the following paragraph:

"The industrial countries are increasingly challenged by the ability of other countries to produce highly competitive products and by intervention of other governments in economic affairs. We accept the competitive challenge and strongly oppose distorting interventions by governments. We pledge ourselves to a continuing expansion of open and fair trade among all countries."

Further on p.9 we would suggest the following sentence be inserted on line 10:

"and the industrial countries should acknowledge their obligation to achieve a non-restrictive environment for all full partners in the international trading system."



THE WHITE HOUSE
WASHINGTON

STAFFING MEMORANDUM

DATE: 5/15/81 ACTION/CONCURRENCE/COMMENT DUE BY: 5/18/81

SUBJECT: Trade Paper for Ottawa Economic Summit

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	<input type="checkbox"/>	<input type="checkbox"/>	JAMES	<input type="checkbox"/>	<input type="checkbox"/>
MEESE	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MURPHY	<input type="checkbox"/>	<input type="checkbox"/>
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HARPER	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

Remarks:

We received this at 6:00 p.m. on 5/14 with a request for clearance by 5/15. I intend to raise this at Senior Staff on Monday morning -- both as a matter of substance and a matter of process.

Richard G. Darman
Deputy Assistant to the President
and Staff Secretary
(x-2702)



OFFICE OF THE VICE PRESIDENT
WASHINGTON

May 14, 1981

MEMORANDUM FOR: RICHARD DARMAN

SUBJECT: U.S. Trade Paper for Ottawa Economic Summit

The attached draft paper is to provide U.S. views on trade issues for the Japanese paper being prepared for the Ottawa Economic Summit. The Japanese paper will be written by May 28, so it is necessary to provide our views as soon as possible. I would appreciate your having the paper reviewed by appropriate White House officials and comments sent to me by COB May 15. Thank you.

Nancy
Nancy Beary Dyke
Assistant to the
Vice President for
National Security Affairs

rec'd
6 P.M.
5/14

RECEIVED
MAY 14 1981
OFFICE OF THE VICE PRESIDENT
WASHINGTON

OTTAWA SUMMIT

U.S. Thoughts on Trade

Successive Summits since the mid-1970's have contributed significantly to managing a period of substantial stress on the international trading system. Summits have built, on the foundation of OECD trade declarations, a strong political commitment to an open trading system. The timely political stimulus given by Summit participants contributed to the successful conclusion of the Multilateral Trade Negotiations (MTN) in 1979. The last three Summits have begun to focus attention on rigidities in our domestic economies and to encourage adjustment to reflect real shifts in competitiveness.

Despite these achievements, as we approach the Ottawa Summit, the overall trading climate has deteriorated. Economic growth in our countries has slowed and inflation has risen. Developments in the world economy over the past few years, such as the sharp increases in energy prices and rapid emergence of new suppliers of manufactured products in world markets, have simultaneously increased the need for adjustment in our economies and created strong pressures for protective measures against selected imports

to slow or stymie the adjustment process. Governments are also tempted to offset oil-related payments deficits by restricting imports or artificially increasing exports. We are seeing a proliferation of neo-protectionist devices, including domestic subsidies, mixed or excessive official export credits, barter deals, supply access arrangements, and investment performance requirements, which are not covered by the MTN codes.

We must deal forcefully to counteract these trends if we are to succeed in our efforts to promote efficiency in our domestic economies and to strengthen Western cohesion on economic relations with the rest of the world. Individual efforts to insulate our economies from adjustment or to offset oil-related deficits can only lead to ~~collective failure.~~ In Ottawa the renewal of our commitment to an open trading system and to resist protectionism must be fresh and credible.

We need an effective strategy which embraces both domestic adjustment and international cooperation. The international side should be aimed at promoting trade liberalization, strengthening the international trading system, and reversing the trend toward new forms of protectionism.

Domestic Adjustment

A coherent response to changing world trade patterns and to the associated domestic adjustment pressures must begin with macroeconomic policies that facilitate the operation of market forces and encourage non-inflationary economic growth. Competitiveness at home and abroad requires domestic economic policies that reduce inflation, lighten the burden of government, and stimulate research and development and investment, thus, raising productivity. The new U.S. Administration's economic recovery plan provides the framework for achieving these objectives. The four component parts of the plan are: reduction of government expenditures, reduction of taxes, regulatory reform and control of money and credit. Widespread government intervention in the form of trade protection is not compatible with this program.

International Measures: Agenda for the 1980s

The current situation is not business as usual, either generally or for the U.S. In the absence of any ongoing round of trade negotiations, we need to restore forward momentum and strengthen international cooperation in support of an open trading system. The first step should be to

develop an agenda for action on trade in the 1980s. Some issues, such as export credits and renewal of the Multi-fiber Arrangement, will have to be addressed immediately. Continued attention will have to be given to implementation of the MTN agreements. Other issues which deserve priority attention include (a) international trade in services, (b) incentives, disincentives and performance requirements related to investment, (c) the development of an international agreement covering safeguard actions, and (d) the tendency toward bilateral deals for supply commitments on oil or raw materials. Of equal importance is the need to expand LDC participation in the trading system and to adapt it to the problems of trade with the nonmarket economies.

Immediate Issues

Export Credits - Given the growing consensus among Summit participants on the need to reduce trade distortions, as well as a desire to reduce the growth of government expenditures, the participants should agree to enforce their Venice Summit agreement to bring export credit rates closer to market rates. This issue needs to be resolved immediately. With the failure of the export credit negotiations, participants have taken a variety of actions to improve their

competitiveness. We could face a costly and self-defeating export credit war if Summit participants do not renew their Venice commitment and agree to honor it by a set date. The U.S. would like to suggest October, 1981 as a reasonable target date. At stake here is the credibility of all Summit commitments.

MFA Renewal - The renegotiation of the Multi-fiber Arrangement under the auspices of the GATT Textile Committee is one of the most important issues on the 1981 trade agenda and deserves priority attention. Summit participants should keep in close touch as their positions develop and should begin to consider whether and how the Summit could facilitate successful conclusion of the negotiations.

Other Priority Issues

MTN Implementation - Our trade strategy for the 1980s should not only address the weaknesses of the trading system which have been exposed in recent years but build upon the successes of the 1970s. In particular, the Summit participants should agree to work for full and effective implementation of the MTN agreements by all signatories. The manner in which the MTN codes are applied will determine the shape and effectiveness of GATT discipline over non-tariff barriers

in the coming decade. Sustained effort is needed over the coming years to assure full implementation of the MTN.

Trade in Services - International trade in services can contribute to the same economic benefits as trade in goods, including economic efficiency, economic growth, increased employment and productive investment in the world economy. In the past 30 years, services trade has increased at an extraordinary pace, reflecting the growing service-oriented nature of the advanced economies. The international rules and procedures which have developed over the past several decades with respect to goods, for the most part, do not specifically apply to trade in services. The U.S. believes that the liberalization of trade in services and the achievement of fair competition in services should be one of our key objectives for the 1980s. This would help to assure an orderly expansion of economic relationships in services and to avoid increased intergovernmental tensions in this area.

Trade-Related Investment Issues - Our governments should address themselves in the 1980s to the wide variety of ways in which governments intervene to influence investment decisions. These policies can distort trade flows just as

seriously as do tariffs and non-tariff barriers. Both developed and developing countries use trade-related investment requirements and incentives (e.g., export performance and local content requirements) to accelerate their development efforts in particular directions and to preserve or create employment in chosen industries. Such measures can have an effect equivalent to that of export subsidies or import barriers and should be brought under a common international discipline. We should give impetus to the work in the OECD and the GATT on these issues.

Safeguard Negotiations - An important piece of unfinished business relates to the need for an appropriate international discipline for safeguards actions. The existing GATT procedures have in certain circumstances proved to be so unattractive that countries have felt compelled to circumvent them. The clarification of international rules on safeguards is critical to the integrity of the international trading system. Without an understanding on commonly accepted safeguards practices, we will likely see the gradual accumulation of arrangements and practices that increasingly distort trade and undermine market-determined international competition. Achieving an improved discipline in the area

of safeguards should also be a key element of an improved trade relationship with the developing countries.

Bilateral Deals Involving Oil or Raw Materials - Concerns regarding the availability of oil and raw materials have led a growing number of governments to negotiate bilateral deals, which include supply commitments for oil or raw materials, investment commitments in processing facilities, and import commitments for processed goods. Such arrangements which are determined by a complex mix of political and economic considerations often may not be consistent with international trade commitments and may act as a restraint to free trade. The United States believes that this trend to bilateralism ought to be addressed in appropriate GATT and OECD fora. In energy, in particular, slack oil markets ~~this year and next~~ ought to be a disincentive to concluding such bilaterals, which while easy to make, are often awkward to terminate.

Trade with LDCs - Trade between our countries and the developing countries is increasingly important to our economic well-being. The developing countries' ability to import in turn depends critically on market access for their goods

and the availability of financing. One of our objectives for the 1980s should be to consolidate and expand on the work begun in the MTN of integrating developing countries more fully into the international trading system. We should encourage non-signatory LDCs to undertake the obligations of the MTN codes and encourage those LDCs which have acceded to the codes to play an active role in their implementation. The more advanced developing countries should undertake trade obligations commensurate with their state of development. We need to carry out our trade dialogue with developing countries through constructive discussions -- both bilaterally and in the GATT. Our objective would be to prevent the more acrimonious collective dialogue in other settings from souring the atmosphere for genuine progress in the trade area.

Non-market Economies (NMEs) and the GATT - We also need to develop a more comprehensive body of commercial rules to protect our commercial interests as NMEs move toward integration into our market-oriented trading system. NME membership in the GATT provides a bridge to fuller NME participation in our trading system, but we have not been able to find a way to ensure sufficient reciprocity in terms of access to

NME markets. Reciprocity would be enhanced if NMEs were to increase the transparency of their foreign purchase decisions and reduce their extensive bilateralization of trade. The possibility of early Chinese accession to the GATT would make serious consideration of these issues in both the GATT and OECD more urgent.

Institutional Considerations

The Ottawa Summit could give impetus to a trade policy work program for the 1980s. A basic question which Summit participants should address is the timing of an attempt to reach a consensus on such a work program.

A second question is that of the most appropriate institutional vehicle for initiating and carrying out work on the topics which we identify as important to address. On some topics, such as services and investment issues, we have made a constructive beginning in the OECD and we should encourage that institution to play a continued role. On other issues we will want to take advantage of the dynamism and competence of the new Director-General of the GATT. A meeting of GATT trade ministers, at the right moment and with careful preparation, could be very useful to pursue. We should, however, be cautious about launching initiatives in

the GATT before there is a broad consensus among the major developed countries. On all issues we will want to encourage the GATT and the OECD to work more closely together than they have in the past.

These considerations lead us to suggest that we consider asking Emile van Lennep, acting in his personal capacity, to consult with representatives of key developed and developing countries, to develop an agenda of trade issues for the 1980s, and to report back to the 1982 OECD Ministerial. The Summit could endorse this approach.

Washington, D.C.

May 12, 1981

THE WHITE HOUSE
WASHINGTON



STAFFING MEMORANDUM

DATE: 5/15/81 ACTION/CONCURRENCE/COMMENT DUE BY: 5/18/81

SUBJECT: Trade Paper for Ottawa Economic Summit

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	<input type="checkbox"/>	<input type="checkbox"/>	JAMES	<input type="checkbox"/>	<input type="checkbox"/>
MEESE	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MURPHY	<input type="checkbox"/>	<input type="checkbox"/>
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Remarks:

We received this at 6:00 p.m. on 5/14 with a request for clearance by 5/15. I intend to raise this at Senior Staff on Monday morning -- both as a matter of substance and a matter of process.

Richard G. Darman
Deputy Assistant to the President
and Staff Secretary
(x-2702)

rec'd
6 p.m.
5/14



OFFICE OF THE VICE PRESIDENT
WASHINGTON

May 14, 1981

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Nancy

Nancy Bearg Dyke
Assistant to the
Vice President for
National Security Affairs

REC'D. S/S MAY 7 1981

OTTAWA SUMMIT

U.S. Thoughts on Trade

*Reactions
to
Japanese
Pages 7*

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Washington, D.C.

May 12, 1981

DOCUMENT NUMBER = 019304SS

ACTDATE = 810515
ADDNUMB =
CREFATE = 810516
DOCDATE = 810514
DSPDATE = 810526
NAME =
RCVDATE = 810515
RECID = 019304SS
STATE =
UPDATE = 810720
ZIP =

SUBJECT TRADE PAPER FOR ECONOMIC SUMMIT
CONFIDENTIAL
NSC 8101979

SUBCODE F0006-01 TA FG006-01 FG006-11 FG006-12

ACTION CNHEES RSA 810515 C
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