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Withdrawer

SMF

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File Folder

EAST-WEST TRADE [07/15/1982]

FOIA

F99-078/3

Box Number

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BOX MUITIBET	,		34	LIC
ID Doc Type	Document Description	No of Pages		Restrictions
86750 MEMCON	CABINET MEETING JULY 15, 1982	2	7/15/1982	B1
86753 CABLE	RE ALLIED REACTIONS TO JUNE 18 SANCTIONS DECISION	2	7/15/1982	B1
86756 MEMO	CLARK TO THE PRESIDENT RE LAUNCHING THE BUCKLEY ENERGY GROUP	1	7/15/1982	B1
86759 MEMO	MARTIN THRU BAILEY TO CLARK RE BUCKLEY ENERGY GROUP	1	6/30/1982	B1
86762 OUTLINE	ALTERNATIVE ENERGY GROUP	4	ND	B1
86763 MEMO	ROBINSON TO CLARK RE WALL STREET JOURNAL ARTICLE ON SANCTIONS	1	7/15/1982	B1

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]

B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]

B-3 Release would violate a Federal statute [(b)(3) of the FOIA]

B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]

B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]

B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]

B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]

B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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COMMENTS
Read Tab I before NSC pretting on Friday. That that Walt Stoemed didn't say one word. Cabinet is way ensured in considering issues with prein policy riphications.

MEMORANDUM

4954

NATIONAL SECURITY COUNCIL

July 15, 1982

CONFIDENTIAL ATTACHMENT

INFORMATION

WPC HAS SEEN

MEMORANDUM FOR WILLIAM P. CLARK

FROM:

NORMAN A. BAILEY

SUBJECT:

Cabinet Meeting of July 15, 1982 -- Minutes

Attached at Tab I is the memorandum of conversation for today's Cabinet meeting on U.S.-USSR Long-Term Grain Agreement and Product Liability.

Attachments

Tab I Memcon

Tab A Product Liability Paper

Tab B U.S.-USSR Long-Term Grain Agreement Paper

Tab C List of Participants

cc: Tom Reed
Dick Boverie
Don Gregg
Richard Pipes
Roger Robinson
Henry Nau
Jim Rentschler
Gaston Sigur

Ronald Reagan Library

Collection Name Withdrawer

BAILEY, NORMAN: FILES SMF 3/8/2010

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86750 MEMCON 2 7/15/1982 B1

CABINET MEETING JULY 15, 1982

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memorandum for: members of the cabinet council on commerce

AND TRADE

: Malcolm Baldrige, Chairman Pro Tempore

Cabinet Council on Commerce and Trade

as specific marries permit

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Let Thee This UBJECT:

Búsial, lecislatic:

Pht s decision

PRODUCT LIABILITY

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ACTION FORCING

EVENT:

Senate Committee Hearings and Possible - Tatters that

Mark-up of Legislation

The Cabinet Council last considered the product liability issue on April 7, 1982. At that meeting, members expressed two concerns about Federal involvement: (1) whether Federal product liability legislation is consistent with the Adminis- secret tration policy of "New Federalism"; and (2) whether there are a acros economic policy arguments supporting a Federal approach. Acresents 20 . Working Group was established by the Council to address these two specific concerns (Tab B). endardo to 3. cerdent

The Since our April 7 meeting, Senator Kasten has introduced a mar english cases as a 2631 the Product Liability Act, and has held two days of a same the - hearings on the bill. More importantly, Senator Kasten is planning to request full Senate Commerce Committee considera apply tion of S. 2631 prior to the August recess. These events -- - - 500 provide us an opportunity, if we can decide quickly the sourse of action we wish to pursue, to influence the legislation being considered. offer of a se Title to less.

> In preparing to respond to the questions raised at the April 7 Cabinet Council meeting, staff of the Working Group reviewed: l ca yircandi

Hearings before twelve Congressional committees over the last six years, comprising more than 41 days of testimony (Tab C);

The findings of the Interagency Task Force on Product Liability, published in seven volumes by the Department of Commerce in November, 1977; as well as the conclusions of empand of the Task force in its final draft of the Uniform Product Liability Act, published by the Department in a massage November 1977;

te larges en More than 1500 pages of comments received by the Senate common the draft product liability are despire Commerce Committee on its draft product labilitys for this large Legislation: exports, we value seld more

go for an extension.

A paper on the economic consequences of a Federal product liability act prepared by a major business Plus we drive the coalition, the Product Liability Alliance (Tab E); Stockman. We have a brook

result of a commodit a pillion dollars. We grad Se sillion fDistrict of Columbia (Tab I). agricultural exports betwee i, and we now estimate Based upon this review, the staff of the Working Group

believes that confusing and diverse standards governing If the sproduct liability produced by statutory and case law in the are domestic the their states impose transaction and production costs on a serious and production costs on a serious and production of the serious and the seriou American industry. The staff believes these costs could be substantially reduced if a national standard were drafted.

notion agreement but the working Group have suggested that a constraint and the suggested that a constraint additional studies should be undertaken, more comments additional studies should be undertaken, more commends solicited and prior data updated before we decide that area is desirable. The staff of the st the Working Group believes additional study and analysis would not help the Cabinet Council decide whether or not to participate in Congressional review of the product liability . resider issue Further study would, in their view, deny the Administration and ---- tion an opportunity to actively participate in the Congressional se semme consideration of an issue which is already moving forward areas sere coreturn for olsoussing a low

The conclusions of the staff of the Working Group as to the consistency of Federal intervention in the product liability area with the Administration's New Federalism, and the economic policy considerations underlying Federal product liability legislation follow:

A. FEDERALISM

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adreement,

Is Federal product liability legislation consistent with the Reagan Administration policy of "New Federalism"?

In the past, the Administration has defined the "New Federalism" in the context of returning health, safety, welfare, and environmental standard-setting and enforcement to the states. Food stamp administration, education policies affecting local school boards, neutrality on key state revenue issues, and broadcutting regulatory relief for state and local governments are all areas in which this Administration has sought to return operation and management — subject in some cases to broad Federal oversight — to the state level. The underlying bases for the policy are the desire to move decisions closer to those affected by them, and to permit state and local governmental bodies to deal with those issues which are best resolved in a local, rather than Malcolm Cabinet Cour.

The goods which are the subject of the various state product RODUCT limit liability standards (whether legislatively of judicially imposed) are sold in regional or national markets. Product liability standards adopted in any single jurisdiction which is part of that regional or national market affect the cost of goods produced for sale throughout that market. The Senate Committed additional costs imposed by the decision of a single jurisdictur of lettion in which the product is marketed to adopt a given product liability standard, therefore, must be borne by all the consumers in the regional or national market in which the goods are sold.

The Cabinet Council last considered.

The Capinet Council last connected to product lability standards to product lability standards to peceral a whether the courts or legislature of a single jurisdiction, which ecosyments is faith of a regional or national market, is not, and cannot new redected at the citizens of the jury digital whose courts cuments such a federal short and the decision. Because the effects of as established to the citizens of the jury digital whose courts cuments such a federal short and the decisions involving them cross state I ness the formula concerns the decisions involving them cross state I ness the formula concerns the decision of product liability standards is not a matter which can effectively, or appropriately, be decided at state or local section does not represent a Federal intruction into matters.

These of local levels.

These of local levels.

Regulation of interstate commerce is a role traditionally be wish to and appropriately reserved to the Federal government. Delng considered

sised a Since the publication of the Uniform Product Liability Act inspend to the World by the Department of Commerce, only four states have council meet anacted any portion of that model statute is and these only

commuttees ever time.

Eearings before tremes last six years contrib

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in part (twenty-seven other states have enacted unrelated the product liability measures, none of them alike). Despite the product liability measures, none of them alike). Despite the state of the Uniability, the various state standards are more disparate now of the Uniability, the various state standards are more disparate now of the Uniability, the various state standards are more disparate now of the Uniability, the various state standards are more disparate now of the Uniability legislation, on the basis that it would limit rights of consumers in that State but would not well by help the state's manufacturers, whose products are sold into pages of the other states and who, therefore, would remain subject to the tree of it more onerous product liability laws of other states at one of a Federal legislation, establishing uniform standards to reduce economic for bus hunders on interstate commerce, is fully consistent with the tree of the careful action of the standards are uniformly upheld by the Supreme Court as an states appropriate exercise of Federal power under the Commerce liability.
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Clause. The states may not limit the length of trains of Columnia Ta operating within the State; they may not regulate the design thing Gand structure of ships; they may not require strucks to be review the side gove equipped with mudguards which are different from those confusing and do case lipermitted in other states.

Case lipermitted in other states.

product liability produced the fifty states impose transaction costs on

e costs Federal product liability legislation is consistent costs. The state were with this Administration's previous initiatives. The state were with this Administration's previous initiatives.

This Administration has previously employed a Temited Federal working of commapproach to problems having interstate implications. STRESS should be decide Administration strongly supported enactment of product function in this liability risk retention legislation as a softwion to the tion in this and analinsurance side of the product liability problem. The our relieves at the product liability Risk Retention Act of 1981 provides for the capacity of the capaci

The President's statement upon signing the Risk Retention Act

Show into law bears repeating:

product like the conclusions of the staff
consistency of Federal inter-

"This Act is a marketplace solution designed to provide station manufacturers, distributors and sellers with affordable ceration product liability insurance. In keeping with this station administration's policies, this goal is accomplished without imposing any new Federal regulations or expenditures. The Act, respecting the rights of states to regulate the insurance industries within their borders,

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End endorcement

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cucation to utilizes existing mechanisms of state insurance departice status of state insurance departice status of state insurance departices status care regulating this type of insurance. The state of state states and procedure this Administration of the Act removes selected state sought to return one cement -- suffice particular, the Act removes selected state sought to return one to the state equilatory barriers so that product sellers can form three reserves are the desself-insurance cooperatives... move decisions closer to this section and to the state of the state

ous stale addition, the Administration is supporting feofisiation are the supporting feofisiation and the state usury econal of its feet principal concern of the Administration is that state usury econal of its feet principal concern of the Administration is that state usury econal of its feet principal concern of the Administration is that state usury econal of its feet principal concern of the Administration is that state usury econal of its feet to additional costs imposed by a single jurisdictor action in which the product is product liability standard the consumers in the rectandance are the consumers in the rectandance are the consumers in the rectandance.

There is evidence that product liability rules have a significant impact on the price, quantity and quality of goods and services. As state courts and legislatures of a decision as the continually alter these rules, the uncertainties about the regional or account to possible liability increase. These uncertainties are a regional or account to make a state of production costs, which in turn affect the quality of the price and variety of products available.

The refree and variety of products available.

Transaction Costs

Transaction Costs

Transaction Costs

The refree of appropriate and recessory and recessory and recessory are recessory.

Transaction costs are legal and associated costs generated by sent a Fed control product liability lawsuits brought against manufacturers. The American Insurance Association estimates that for every sixty-six cents a victim receives, seventy-seven cents is tracispent in legal costs. A significant percentage of legal interstate companies.

is in the state where the action is brought. These costs to the manufacturers are eventually passed on the the consumer of the leave the states have the action of the cost to manufacturers for the leave the

It has been estimated that the cost to manufacturers for initial outside counsel fees related to typical out-of-state claims is approximately \$2,000-to-\$4,000 per claim. These initial expenses are for basic analyses of the law in any number of jurisdictions and this does not include litigation decisions required to be made by in-house counsel, pre-trial or court time or other costs. Since approximately 109,000

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cted uniproduct liability suits were filed in state and Federalty-seven our res
186 Courts in 1981 alone, annual initial defense expenses may be easures
coverniras thigh cas $200-400 million, before any case goes to atriable uniformity
more disanderclusive of settlement costs.
                                                        liability the various state
ernors have vetoed
                                                        than ther were a decade ago.
cases Production Costs
                                                        state product liability legis
                                                       would limit rights of consults
te but would not
icts are Because products are marketed nationwide they are held to notivize course
an subject but fifty-one possible standards. Manufacturers muste who there a
state design, label, ship, sell and market products which meetroduct liability
        these varying standards. For example, New Jersey, Pennsylvania,
tandard California and Wisconsin each have different standards for on establishment
maister design liability. As a result of these kinds of differencesate comment
remment one manufacturer of machine tools has recorded increases in played and
ame courproduct liability costs per machine from $200 in 1970 tour form
the Complete 1982.
                                                        appropriate exercise of Feder
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Clause. The states may not a contact of improving currents states.
e truck products is affected by some state laws which permit the same them
from Lintroduction of post-manufacture improvements to establish that a product was defective. The losses involved in product tages
         lines or design improvements not made or introduced, are, of
onsister course, difficult if not impossible to quantify. Never- lies
      theless, they must be taken into account. With this Administration some
lives.
It is estimated that the cost of product liability insurance as previous represents between 10-15% of the price of some products of the price of this cost includes either actual insurance premiums paid, or some solution internal reserves held in anticipation of adverse judgements.
problem Effect on competitive position in internsticial trade.
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El provi breat on competitive position in international trade.

DOS LAWS Present product liability standards are a disadvantage to permit a manufacturers when they must compete with foreign and made products.

twenty times what they are in Europe and vary between estated to provide and forty times what they are in Britain.

For many product lines, foreign manufacturers entering the American market for the first time have a price advantage over similar U.S. made products. They do not have to factor into the price of their product potential liability costs for products still in use in the United States after 20, 30 or 50 years. Also, they may introduce products with new safety or design features without worry about being held liable because their older products do not have such features.

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nsurancthe Hidden Costs
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ments streamilined to exle meed The costs discussed above represent only part of the pictures the ci There is another significant area of costs which are not in particular the Acti

ed staterecorded:

regulatory carriers so t lers can for The costs incurred in the settlement of claims that are cooperat: ultimately disposed of out of court without a determina-

tion of liability. Approximately 95 percent of diability of is Show the claims are settled or dropped before they reach the vernment can & wide problem jury. The overwhelming majority of those that proceeding adding ragencles".

never reach a jury and are either settled privately or re legislaticabandoned. Private settlements rarely become part of Administration the public record, and parties frequently agree stockeepefore Gozd

d preempt st the terms of the settlement confidentsall laws S. 1720 minor Garm, would remove state-imposed interest on all loans Insurance costs. While it is known that U.S. businesses the domin that state us:

spent between \$1.3 billion and \$1.6 billion storcommercially recit insure their product-liability exposure in 1981: (1) A significant number of businesses are self-insured or make no provision to cover their product FIRANTIOTY CONSIDERAN exposure; and (2) These businesses do not report details es have a of their product liability loss-and-expensesexperience that product de quality of Since this group accounts for a significant particulatheon the particulation of the product liability loss-and-expenses experience that the particulation is a significant particulation of the particulation potential data base, their data représentsaacsignificant às state

unmeasured cost inherent in the current product liabilityse rules possible liability increase? situation. translated into increased trafect the CONCLUSIONS tive) and production odsess.

price and variety of products

UTILLIES existing me lar

It it unlikely that the states will adopt uniform product liability standards in the foreseeables is future.

Transaction costs are legal at The lack of uniformity among state standards has lawsuits or: created burdens on interstate commerce which resultance Associa in economic costs to the manufacturing and consuming the received spent in legal dosts A signi public.

costs are generated by the nee These costs - Federal legislation creating uniform productate where the act

liability disputes by the states is both economically justified and consistent with estimated that the cal cut-of-state Administration policy. Lautiel cotsice coursel desci-

claims is approximately significant initial expenses are for bagge number of purisoneries and E. ದಕರಾಶಾಧ್ವರ ಸಕರಾಶ್ವಕ್ಷದ ಸಕ್ಕಾರಕ್ಕೆ ಸಕ್ಕರ್ಷ

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OPTIONS FOR ADDRESSING THE ISSUE 1961 alone annual and Federal Acust Lieullity state . Te e expenses may be as high as Scool-400 million e coes to trial. and exclusive of settlement of

Option One: Take no action

Pro: (1) The Administration is not required to adopt a contraction position at this time.

Because products are manhere: facturers mu(2) This late in the current Session. It is unlikely be possible of the which meet that any legislation would be acted upon by the ship self and Jersey. Pennsylv Congress prior to fall adjournment these varying standards. For Jersey. Pennsylv Congress prior to fall adjournment lese valy and Wisconsin made

it standards for description of the standards of the standards of the standards for the standards for the standards of the st ded increases in

200 = - Con = (1) U.S. Industry has been urging the Administration Ty costs per a to simply recognize the need for Federal legislation. Failure to do so would risk alienating

improving currethese groups. for marketing : products is affected by some ent firmed no.

to establ(2) Failure to participate in the process early could post-manufacnvolved in produ**hinder future Administration influence over the** was detective Was defective stroduced, are coutcome of the issue. course difficult wi not impo niif. Never-

(3) Three Administrations and four Congresses have must be taken already studied this issue. Further delays will that the cos-participate in this issue. This cost includes either acpremiums paid, of internal reserves held in an adverse judgements.

Option two:

disadvantage to ete with foreign Recognize need for Federal approach and direct Working Group to develop Administration position on legislation and work with Congress to develop acceptable bill by esemble congress. to develop acceptable bill. American manufacturers when

Pro: (1) The Administration could be on record as supporting the principle of a Federal approach, without favoring rates are about specific legislation. twenty times what they and vary between

(2) The Administration could have the opportunity to forty times w. ensure the development of fair and balanced legislation. acturers entering

a nave a process Demonstrates to business community Administration narretains for the consumption of process process potential process potential

bill (S. 2631). 30000 bill (S. 2631). INTOCCICE TICCLOTE MET. design features The transfer of the transfer o

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(2) Consumer groups may criticize the Administration for supporting legislation they see as affecting the The costs discussed above ret

rt of the ploturerights of injured persons. which are not

There is another significant

(3) Could involve us in a process whereby the President may have to veto a bill even though the

f claims that areAdministration had cooperated with the Congress. incurred in the thout a determineercent of liability hev reach the ose that proceed led privately or

pecome part of tly agree to keep

at U.S. businesses linon to commercially e in 1981: 11 A elf-insured or ct liability not report details dense experience. licant part of the sents a significant it product liability

ultimately disposed girk tion of liability April claims are settled world jury. The overwhelming never reach a jury and a apandoned. Private sett the public record and the terms of the service

Insurance costs. While spent between \$1.8 bull insure their product-las significant number of \$8 make no provision to do exposure: and (2) These of their product lies. Since This group account potential data base the unmeasured cost inneren situation.

CONCLUSIONS -

- product leagil ----
- 1. The lack of uniform. created surders of in economic costs t public
- 3. Federal Legislation lebility standagts economically restricted

-adopt uniform : foreseeable.

e standards nas merce walch result iring and consuming

im. product. testion of product is both tent wit

ISSUE PAPER

U.S.-U.S.S.R. GRAIN AGREEMENT One: Take no action

to accort a

Pro: 1) The Administration (position at this time

Issue

this unlikely (2) This late in the dured upon The quirrent U.S.-U.S.S.R. Grain Agreement will expiretion any legislation September 30, 1982. The Administration must decide whethers to be

wants a formal arrangement (and, if so, what kind) to govern dv of this. Hesis. R. grain trade after September 30. (3) This would allow more

Administration ederal legislalalienatino

I. Background

Con: (1) U.S. Industry has in to simply recognized these groups.

U.S.-U.S.S.R. Grain Trade Prior to 1975. An unfavorable case earclimate, poor soil, backward technology, and an extremelying to participate overefficient agricultural system make periodic crop failures inture activities the Soviet Union a virtual certainty. As a result, the Soviets the last twenty years, imported increasing amounts occases of grain to accommodate their domestic needs. (3) Three Administration

already studied traises for the U.S. were relatively modest untiline and the 1972, when the prospect of a major crop failure prompted them to buy, over a two to three month period, 19 million metric tons (mmt) of U.S. grain, including one-fourth of the total

pproach So wheat crop. The Soviets made their purchases quietly and conize need the sudden increase in demanda no Group work. The Soviets also were able to capitalize on USDA's wheat export on the subsidy program and a recently negotiated credit arrangements develop accomplese circumstances, as well as the domestic market disruption

cord as caused by the massive grain purchases, led critics to label the tration of a security specific legislation

The U.S.-U.S.S.R. Grain Agreement. The summer of 1975 brought station is believed upon the reports of a looming Soviet crop failure. These reports a developme coupled with the desire to avoid a repeat of the 1972 scenario, prompted the Ford Administration to suspend grain sales to the soviet Union until an arrangement could be worked out that would prevent Soviet disruption of U.S. domestic markets and quarantee U.S. farmers a reasonable share of the Soviet market.

The ensuing negotiations with the Soviet Union produced an agreement with the following provisions:

Administrated the Soviets agreed to purchase 6 mmt of U.S.1 wheats and groups that a sifecting troom, in approximately equal proportions, during reacht of legislate the five years covered by the agreement; rights of injured p

reby the Fores The Soviets can purchase up to 2 mmt more of U.Sougrain out as in the to during any year without consultations with the Was lave to veto a contraction had

- o The U.S. agreed not to embargo exports of up to 8 mmt of grain to the Soviet Union;
- o The Soviets are required to consult with the U.S. (to determine a higher supply level) before buying more than 8 mmt of grain in any given year;
- o There is an escape clause for the U.S. in the event of a major U.S. supply shortage;
- o Soviet purchases must be made at prevailing market prices and in accordance with normal commercial terms.
- The Soviets agreed to ship the grain under the terms of the U.S.-U.S.S.R. Maritime Agreement;
- The Soviets are required to space their grain purchases and shipments as evenly as possible over each 12-month period.

Since the agreement, there has been greater stability in world grain trade and in Soviet purchasing patterns. Under the agreement, the U.S. has expanded its share of the Soviet market (see Appendix). Over this period, Soviet demands for grain have increased more rapidly than their production, resulting in a higher level of Soviet grain imports.

The Soviet Grain Embargo of 1980. On January 4, 1980, in response to the Soviet military invasion of Afghanistan, President Carter cancelled contracts for the sale of 13.5 mmt of U.S. corn and wheat to the Soviet Union. The U.S. also denied the Soviets access to an additional 3.5 mmt of grain which had been offered to, but not yet purchased by, the Soviets. Finally, shipments of soybeans, broilers, and some other agricultural products were halted.

The Soviets were able to minimize the effects of the embargo by drawing down their grain stocks and by increasing grain, soybean, rice, flour, and meat imports from Argentina, Canada, Australia, and the European Economic Community.

The Soviets have since entered into new long-term purchasing agreements with Argentina, Brazil, Canada, Hungary, and Thailand, in an attempt to diversify their sources of supply, resulting in a declining share of the Soviet market for U.S. farmers.

In April 1981, President Reagan lifted the Soviet grain embargo. This was followed by an agreement in August to extend the expiring U.S.-U.S.S.R. grain accord for an additional year, expithrough September 30, 1982. In October 1981h, the US. offered S. B. Grad decide thee Soviets an additional 15 mmt of grain, registings to 23 mmt. The Admin kind thegameunt of U.S. grain available to the Sowiets during fascalpement dan year 1982. To date, the Soviets have purchased a stotal off all trade affect 13.9 mmt of U.S. wheat and corn.

U.S. Sanctions Against the Soviets in the Aftermath of the Polish Declaration of Martial Law. Discussions concerning unfavonegotiation of a new U.S.-U.S.S.R. long-term. grain agreement Trade Pric an extwere under way within the Administration when the Poldsh Soil, packward t crop gevernment ndeclared a state of martial law ine December 1981 quitural system result, When the Saviet Union failed to respond to U18. Surgings to help result increasestosechasic human rights in Poland, the President announced at twenty number of sanctions against the Soviets, including postponementare the of negotiations on a new grain agreement and suspension of y mode**segotiations on a new maritime agreement.** Soviet purchases from the U.S.

ire prompted them million metric th of the total II. Discussion chases quietly and

indrease in demand.

MENT

U.S. wheat drou. The Sowners early, before prices adjusted SSTA & SowieteImport Demands. Soviet grain productionShasedeclinedwere abla to ecut arsharply during the past three years, after more than as decades a recembly marketofosteadyogrowth. Following a record crop offe2370mmt in 1978, as well a retics the Sovietcharvest fell to 179 mmt in 1979, 1896mmt in 1980s of the property to 158 mmt in 1981, nearly one third below the great force

1972, when the prospect of a

to buy; over a two to three do

tons amt of U.S. grain, gade

target. To avoid massive shortages, the Soviets have imported more than 100 mmt of grain since June 1979. During the

ar of marketing year ending this June, Moscow is expected to import at a Acreen Theseecord 45 mmt of grain. the 1971 Scenario

new reports of a looming Soule coupled with the desire to awa

Frain Sowietchard-currency outlays this year for all agriculturals Administrate press commodities -- including grain, other feedstuffs; meat, sugar, and areas stic meand tyegetable oil -- will probably reach some \$12 billion to upet disturbed the Scabout St billion from last year, and a sharp free ease from theers a reaso roughly \$8 billion spent in 1980. Altogether, food imports now rescaceount for roughly 40 percent of total Soviet hard-currency adyeement woth the bollo smoot purchases.

Even with a strong recovery in domestic grain production,

Moscow will continue to import large amounts of grain, an

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estimated 45 mmt of grain during the next marketing year
1.5 (Julya1982-June 1983). The ultimate level of Soviet grain at acreed to the
s dimports during the next marketing year will depend on the state of a state of the second of the of the seco
                                                                                                  the five years covered b
                  The size of the 1982 Soviet grain crop. USDA recently
re of U.S.reduced its projection for the 1982 Soviet grain scropets can purchase
                                                                                                  during any year without
sith the U.from 185 to 170 mmt;
of up on aThetextent to which the Soviets decide toomaintain, or agreed not to ge
                                                                                                  crain to the Soviet Urbo
                  expand livestock inventories;
in the G.S.Hard-currency constraints. Increasing Sovietphardeviets are required
buying modurremandy constraints or a decision by Westernabankerse to higher suppli
                  curtail short-term credits could hamper Moscow'smimportrain in any ga
                  intentions;
                                                                                                  There is an escape class
in the event of a
                                                                                                  majo: U.S. supply shorte
                  U.S.-U.S.S.R. trading relations;
iling mærkeTherextent to which the Soviets will allow increasedpurchases must be
al terms, dependence on imported grains; and
                                                                                                  and in accordance with n
nder the tesowiet port capacity. Currently Soviet grain Timportiets agreed to sk
                  capacity is 45-50 mmt per year.
                                                                                                 the U.S.-U.S.S.R. Marita
r graSoviet coefficials recently announced ambitious production goals are required
er eaforl@raimtand livestock for the remainder of the 1980s.snTheynts as evenly
        also expressed their intention to reduce imports of proodstuffs
        from capitalist countries. The history of Soviet agriculture,
statihowever, suggests that achieving increased livestock productions, there has
      Ugdals will be extremely difficult if the Soviets reduce egrain in Soviet page
                                                                                        agreement, ine U.S. has extant market see Appendix . Over 1
i theimports.
viet demands for
                                                                                        grauf hare increased more page
production
importus.-U.S.S.R. Grain Agreement in the Context of the World Grains i evel of
        Market. It is doubtful that a long-term grain agreement
        between the Soviet Union and the United States would have much
effect on the total U.S. share of world grain Itrade during the Imperso of 15
Afchanext marketing year. However, the existence of sabsence of such that Till ter
salean fagreement is likely to have a significant impact for world: cancelled cor
 The grain strading patterns in future years. If, by fafling to and wheat to the
.E minegatizate a formal trading arrangement, the Soviets were somess to a
ased discouraged from satisfying their import demands of natheograp offered to
c. e market, sthey would have to seek new sources of supply. The -- STITE
        prospect of servicing a consistently large buyer fisuch as the a traductive
        Soviet Union, would prompt other exporting countries to further
as: increase their production. (Since the 1980 Soviet grain the to the street production by roughly 25 percent.) This increased production by roughly 25 percent.)
```

would compete with U.S. grain in world markets, Freducing the To Extreme Ex

U.S. share of the growth in global grain trade.

rest U.S. Foreign Policy Considerations. The U.S. Tis pursuing and the entered recommendation in allies to pursue, a general policy of economic certima. The urcerestraint with the U.S.S.R., based upon fair burden sharing intents to diverthe West. A government-to-government agreements, especially one ining share perceived as newly-negotiated, that promotes grain exports, would be regarded as an exception to that policy.

r AuMore specifically, negotiations with the Soviets would signales followed by a can-endato, one of the President's measures against the U.S.S.R.-J.S.S.R. grathein respense to the Poland crisis, undercutting the generalmoer 30. 1982. It is in package of Poland-related sanctions, and implying that the additional That its situation there has improved and that the U.Stndsaprepared U.S. grain available adopt a business as usual stance. The Soviets could be a date, the Soviet expected to promote this interpretation vigorously and of U.S. wheat and con-

Resuming negotiations would conflict with the decision to termaextend_extraterritorially sanctions on oil and gass equipment carnst the Sovers of Resuming energy. In the absence of real changes in Polandyation of Vartial grainesuming enegotiations would undermine U.S. credibility ont a new U.S. -U.S. the burden sharing and U.S. efforts to induce its addies to way within the Admit December 1988 restraint in credit and trade arrangements withoutheared a state of sident announced a restore basic numer rights the sident announced a number of sanctions against the susplus. Domestic Considerations. The U.S. farm sector is along on a new grain supplies, high interest rates, and a cost/price squeeze

experiencing serious economic hardships due toe over-abundant a grain supplies, high interest rates, and a cost/price squeeze. Pressure is being applied on the Administration to provide various forms of assistance for farmers, including paid land diversions, export subsidies, increased food assistance, and higher price supports.

The U.S. maritime industry and labor share a common concern from less very over the arrangements for shipping grain from the U.S. to the stern of Soviet Union. In the absence of a new U.S.-U.S.S.R. maritime agreement, U.S.-flag vessels would be effectively precluded from participation in carrying grain to the U.S.S.R. Such a development could have an adverse impact on the cooperation of U.S. maritime labor in implementing any grain agreement.

owlet oreit era and

III. Options

estimated 45 mmt of thath demond 10019 1982-00me 1983 . The LL LE imports during the mext marketime

option 1: t crain crop

Allow the existing U.S.-U.S.S.R. grain agreement to 1982 Sevie expire without providing for any formal agricultural ection for trading arrangement between the two countries after September 30, 1982.

maintain or

The extent to which the So. expand livestock inventible

Advantages:

Hard-currency constraints tern pankers Would be consistent with the President's policy of natraints or a k oscow's imporpostponing negotiations on a new long-term grainsport-term credits agreement with the Soviets until there were nions: improvements in the Polish situation.

.S.-U.S.S.R. trading relat Could be presented as the Administration's attempt to reduce government intervention in the international, which the Sov w increased marketing of U.S. agricultural products dependence on imported grain

Would end the no-embargo guarantee which gives the capacity. rain import Soviets special treatment not accorded to pather is 45-50 mmt peril buyers, and limits the President's foreign policy production goals exibility. Soviet officials recently announce

for grain and livestock for them.
s of foodstation and with the recent decision on the pineline.

et agriculture, and with the recent decision on the pipeling untries. nowever, suggests that achtevers coals will be extremely difficult

s reduce gradvantages:

stock production

the world

atreerert

would nate

race during ansence of

Agilling mo

lets were

let crain

el: crait

Would give the Soviets unrestricted access to the U.S. grain market and could lead to disruption of the U.S. hareement of grain market if the Soviets were to resume their country that a lo erratic purchasing behavior of the early 1970s. | er and the

effect or the total Farmers would view lack of an agreement asseliminating however, to their chances for maximizing their share of grain to have a pact on world sales to the Soviet Union, and this would be perceived: as undermining the President's commitmentate helpa tracing arrang increase agricultural exports. discouraged from satisfying their s in the U.S.

imports.

market, they would have to seek supply, The Could lead to the lowest level of U.S. egrain exports of a consustation under any of the options, and thus increase federal contact tries to fort outlays for agricultural price suppost and productions . Same control programs. empargo, Ardentina and Canada da-

production to yours. It menders Sec tree of Would eliminate one more ongoing U.S.-U.S.S.R. tie, and could affect the atmosphere of the supcoming U.S. U.S.S.R. summit.

s pursuptions:2: iov of economic rden sharing in' , especially one ain exportAdvantages:

Extend the existing U.S.-U.S.S.R. graincagreementConsideration for one year. encouracing its allies to bursley

restraint with the U.S.S.F. . base the west. A dovernment-to-dover perceived as newly-negotiated, the would be recarded as an expention

s would signal the deneral ng that the is prepared do

Would maintain a formal trading arrangement that would assure U.S. farmers of some accessetoptheiSoviet, negotiations & st the U.S.S.B. market and insulate domestic usersefromopossiblethe President St Soviet disruption of U.S. markets response to the Poland crustal package of Poland-related sanutak

Would continue the status quo, therebyoblanting the mproved and charge that the U.S. was making acconcession to the usual stark Soviets in the absence of an improvement inpthec polishs intendre situation.

equation to gas equipmera in Poland, ibility on liles to ents with the

Resuming negotiations would come Would allow for a more positive etrade atmosphere with it sancata the Soviets than there would beadn then absence of anne absence to agreement, and thus would leaveragen the apassibility would under of entering into negotiations of achewslong termograin efforts a agreement subsequent to an improvementeinetheapolish credit and situation

Disadvantages:

experiencing serious economic men Would be perceived by U.S. farmers assharming their interest rac chances for maximizing their sharesoftgrainsalesate led or the the Soviet Union and thus undermined the Presidents stance for gr commitment to help increase farm exports; export subsidies,

over-abundant /pride squeeners. to provide ind baid lamd sistance, and

otor is

nioner brice submorts. Could be perceived as a weakening of U.S. sanctions imposed against the Soviets as affecultiofithe polisher long-ter situation, and conflicting with atherrecentadecisfontones ... fa sanctions on oil and gas equipmentland technology, would be when

. crain inimum sales Cultifal ir trade and coment to tro the fart e of the cultural acreement s commitment

community as a positive step in . Could undermine ongoing U.S. efforts to enlist the fine Adminis support of its allies in restricting government: To would be credits to the Soviet bloc. COMPLETICE AS CORSISTERE WITH THE

Administrations fam policy -- : exports. Farmers regard the LaS. issue as the limbus test of them? to the addicultural sector

C.S. Domestic Considerations.

amor concert re u.S. to the S. F. Faritima Trecluses S. 000 E

The U.S. maritime industr wase la over the arrandements for shuttan Somiled Union. In the absence of admeerent listaflat ressels would inin ta tuqupanion in carry no os . . .

Extend for two or more years the existing Option 3: U.S.-U.S.S.R. grain agreement amended to provide higher minimum purchase requirements.

in adreement to Tai açricultura countri Advantages:

Option 1:

Allow the existing up. explie Without provid tracing arrangement b

Segtember 30 1900.

Would insulate domestic consumers from possible Soviet disruption of U.S. markets for a longer period.

Advantaces:

term drain were

Ensures higher minimum farm exports to the Soviet 's policy of Union under all market conditions, demonstrating behavious stent with President's commitment to increasing agricultarrabine necessistions exports. agreement with the Sova.

improvements in the Bol

on's at Dersadvantages: international

Could be presented as # reduce government inter-

Would signal a U.S. retreat from the sanctions eimposed U.S. admid in response to the Polish situation and could undercut on gives the our efforts to secure changes in the policies of ethe the no-empand

to other Jaruzelski regime. Soviets special treatme reign policy

buvers, and limits the

Would undermine ongoing U.S. efforts to enlist the ity. support of its allies in restricting government all Soviet

tall Soviet credits to the Soviet olde. Our allies would have and with the pipeline this option as inconsistent with the pipeline to and with the need to be a sold with the sold with t credits to the Soviet bloc. Our allies would view most consisten decision. It would damage our credibility with the

allies on burden-sharing.

Disadvantages:

Sagar Si

Would broaden the no-embargo guarantee to higher 0

cess to the Camounts, enhancing the special treatment given to the Soviets ion of the U. The Soviets. grain tarket and odding esume their

Grain market if the Sow erratic burchasing beha

it as eliminatino ere of grain uld be berdeived ent to help

Farmers would wiew lack their chances for maxim Sales to the Sollet wat as undermining the Pres . increase agricultural e

grain exports rease federal and production Could lead to the 18 mas under any of the opening. butlans for admidulthma. control programs

1.5.5.7. 1.4 U#C57175 U,S = Mould Elitimate and more and could aftect the at-1.5.5.5 5 8.55.5



Option 4: Negotiate a totally new U.S.-U.S.S.R. grain System the existing for the existing

Such an agreement might include four basic features:

- 1. A minimum purchase level for the grains deverted under the agreement. The minimum purchase level would be incement that adjusted each year on the basis of a two-year moving. S. farmers to the Soviet average of actual Soviet grain purchases.

 The possible market and insulating the formula possible to the soviet average of actual Soviet grain purchases.
- 2. A "prior consultation level" expressed as a soviet disruption of percentage above the minimum purchase level would continue the stancession to not go, without prior consultation with the USSTIETS in the absence ement in the Polision.
- value—added agricultural products.

 is atmosphere with

 the absence of A provision that any decision on supply availability and there
 is the possibilabove the prior consultation level would require entering into negonation the Possecific amounts.

Under current international circumstances, it is highly unlikely that the Soviets would agree to a new agreement that would be viewed as an increase in U.S. leverage over Soviet affairs.

as harming their of grain sales to the Presadvantages:

would be perceived by chances for maximized the Soviet Union and commitment to neither

- o Would achieve a greater integration of the U.S. and the perceived as the S. sancting Soviet trading systems.

 suit of the Polish

 recent decis Would assure U.S. farmers a reasonable share of the one of and conformation and conformation the sanction.
- s to enlish thwould force the Soviets to be more forthcoming with of its allies government respect to their buying intentions.

 Credits to the Soviet

Disadvantages:

- o Would signal a U.S. retreat from the sanctions imposed in response to the Polish situation, and could undercut our efforts to secure changes in the policies of the Jaruzelski regime.
- Would require protracted negotiations that could extend beyond the expiration of the current agreement.
- Would provide the Soviets much greater opportunity to press for stronger supply guarantee provisions.

M

Cotion 3: 3

Extend for two or mur APPENDIX 1 grain a Dicker minitud burdha

<u>Advantaces</u>

	sible Sowie riod.	u.ssoviet	GRAIN TRADE 1973	3-1982 Would insulate domestid disruption of U.S. mark
the	Soviet	Total USSR Grain Imports (mmt)	US Grain Exports to USSR (mmt)	c Ensures higher minimum? US Share of Total all marker
	FY 1973	22.5	14.1	Disadvantades:
ná co	lons impose FX c 1974 ercu		4.5	o Would signal a U.S. ret 79 response to the Polli
	res of the FY 1975	7.7	3.2	our efforts to sequife of 42 ruzelski regime og skaller
	FYs 1976e	25.6	14.9	c 58 ulc undermine ongoing
S WO	FY: 1977	8.4	6.1.	support of its allies in the Source of
ospel Ljoty	FX 1978	22.5	14.6	this option as incommis 65 cision. It would do
	FY 1979	19.6	15.3	allies on burden-smarts. 78
s to ent g	FY _e 1980	27.0	8.3	c would proader the notes.
	FY 1981	388	9.5	the Scolets.
	FY 1982 (projected)	45.0	13.9	31

ITES:

s-covered under evel would be wo-vear moving es.

sec as a ieve: -es could n the G.S.

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s highly acreement that over Soylet

James E. Jenkins Murray Weidenbaum Rich Williamson Lee Atwater, for Ed Rollins

For Presentations: Item #2 - Sherman Unger

James A. Baker

Elizabeth Dole Kenneth Duberstein Craig L. Fuller David Gergen

Edwin L. Harper

Kenneth Cribb

Edwin J. Gray

Larry Speakes

Jim Cicconi

Daniel Murphy Karen Hart

William P. Clark

Richard G. Darman

Thursday, July 15, 1982 -- 2:00 p.m.acreement might include A minimum boronase Leye

the agreement. The min actusted each year on d The Cabinet -- All Members * averace of actual Soule

* Walter J. Stoessel, Jr., Acting Secretary, consultation of State percentage above the mit

* R. T. McNamar, Deputy Secretary of their water the ennual not go, without mining Treasury, for Secretary Regan

* David B. Swoap, Under Secretary of provision to encourage Health and Human Services, for value-acced agracultura Secretary Schweiker

* W. Kenneth Davis, Deputy Secretary of ovision that any de Energy, for Secretary Edwards above the prior consulti commitments on both sage specific amounts.

> Under current international circ unlikely that the Soviets would would be viewed as an increase in affairs.

> > Advantages:

would achieve a greater Sowiet tracing systems

> Acid assure J.S. Earther Sowlet market, based of

o would force the Soveets respect to their buying

Disadmantades

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Bud McFarlane	2	<u></u>		
Jacque Hill	3			
Judge Clark	4		<u> </u>	
John Poindexter				
Staff Secretary		***************************************		
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wall Street Journal, July 15, 1982

Economic Battles Push U.S.-Europe Relations Close to Danger Point

Curb on Gas-Pipeline Gear Is Chief Issue at Moment: Retaliatory Steps Feared

Giving the Soviets a Wedge

By ART PINE and DAVID BRANDS Staff Reporters of The Wasa Street John

On both sides of the Atlantic, the riletoric sounds more like that of enemies than of al-lies. Castigating the Europeans, a senior Reagan administration advisor in Washing ton says, "We're dealing here with a bunch of spoiled children." U.S. actions, a top Common Market official complains, and not only Hegal but a threat to tobs in His

About the only thing that the two sides of agree on is that their mounting economic disputes have pushed U.S. relations with Western Europe to their lowest point in recent memory. There is a growing fear that

economic retaliation by either side could surficulty weaken the Western alliance.

The major issue coverently poshing the two sides apart is President Reagan 9 June decision to broader American restriction on the expert of confirment for the plants \$10: billion. Siberia to Europe natural ga pipeline: U.S. corporations foreign subsid aries and European companies manufactur aries and Suropean companies manual uning under U.S. license now are hanned from sailing, high technology oil and natural gasequipment to the flustians. The move is regarded by Europeans as an enercoclument on their savereignty and, they say, will commany European jobs.

Unfortunate Timing.

For U.S. European relations, the timing of the embargo couldn't have been worse The two sides were already embroiled in disputes over steel, agriculture, high U.S. in terest rates and the strong dollar.

So rapidly have relations been deteriorat ing that both sides realize that compromises are needed. At a meeting Tuesday, the Realigan administration decided to seek ways to softer the effects of its pipeline technology embars. Although the administration itself is still divided on the issue some officials suggest that enforcement of the sanction may be "refined" to avoid widespress blacklisting of European companies. Wash inglon is also seeking ways, to lower the rhetoric and the tensions with European "We're aware that both sides have to move-and soon, one U.S. policy maker

s For their part, Common Market official say they are artious to find a way out of the increasingly rancorous disagreements be fore the situation degenerates into what Bell gian Foreign Minister Lee Tindemans calls "economic nationalism." Says Str Roy Denman, the community's top trade negotiator. whose new job will be to seek accords with Washington. "We hope reason will prevail. We all have too much to lose."

In an unusual peace effort, three top Common Market officials, Vice President Ettenne Davignon, Vice President Wilhelm Haferkamp and Sir Roy, are scheduled to visit Washington today and tomorrow to confer with high-level officials, possibly including President Reagan.

Conciliatory Move

In one conciliatory move last week, Poul Holsager, the Common Market's agriculture minister, hinted that the community might. slightly reduce the subsidies to European farmers. U.S. Agriculture Secretary John R. Block anxious to placate hard-hit Midwestern farmers, has assailed Europe's farm subsidies; he contends that they give European farmers an unfair competitive edge

Although officials on both sides assert that a trade was isn't imminent, there are clear signs of retaliation that, they say, demand emergency negotiations. The Europe ans, for example, are challenging the proba-ble imposition by the U.S. of stiff import duties on Common Market steel shipments. The Europeans in a formal protest to the 87-nation General Agreement on Tariffs and Trade, contend that the U.S. Commerce Department has greatly overstated the extentsubsidies to domestic steel industries.

The Ethiopeania have also revived a decide complaint in GATT against the Dominal Informational Sales Corporation program, which provides tax subsidies for U.S. experters. And the Common Market has red consideration of a plan, previously nessed at Washington's urging, to limit U.S. pales in foreign of corn gluten, which com-

Waiting for Shultz Washington experts generally agree that of much can be done to ease the discord until George P. Shultz, the new U.S. Secretary of State, takes office. Even then, changes may be limited Aithough Mr. Shukz's nomination is expected to win quick Seater approval; officials say there is little he can do to alter the pipeline decision. In testimony before the Senate Foreign Relations Committee yesterday and Tuesday, the secretary-designate fully endorsed the presi-

For now, the administration's strategy is to try hard to make peace with European. governments without reversing its policy. Last week, for example, Commerce Secretary Maicolm, Baldrige went to Brussels to seek a settlement of the steel dispute.

Westington is also determined to get ferences can be resolved quietly, without the involvement of national politics. "As long as it's on the front page, you won't be able to get anywhere," one U.S. official says,

Major U.S. government departments and agencies. State: Defense, Treasury and the U.S.: Trade: Representative a Office—have been asked to draft recommendations for the pipeline decision elf isn't expected to be rescinded unless sland ends its crackdown on internal dissent. However, the administration is looking for the slightest improvement in Poland as an excuse to soften the embargo.

To some extent, both sides agree, the disputes have been exacerbated by Europe's economic problems. With 10 million workers unemployed-a postwar record-and little hope for a quick return to prosperity. European leaders are reluctant to give way to the U.S. on economic issues.

Ordinarily, most of these might seem like little things, but with the economic situation as it is, the Europeans can't handle it," says Harald Malmgren, formerly a U.S. trade official and now a Washington consultant. But in the view of Common Market Vice President Davignon, the actions by the U.S. are aimed at "reconquering the one-sided advantages" that it once held in

The truth is, say officials on both sides of the Atlantic, there is plenty of blame to go around. It is widely agreed that the U.S. has a point in complaining about Europe's huge agricultural and steel subsidies. The subsidies, says Jan Tumlir, Gatt's director of economic research and analysis, "are out of control." Even European governments, he says, "don't know the amount of the subsidies in many cases because payments are made under so many different headings and categories." Spillover Effect

U.S. exports are also being hurt, officials say, by protectionist moves, such as import restrictions, as European governments try to reduce unemployment. Robert Taylor, a partner in European Research Associates, a Brussels-based consulting organization, says. much of the protectionism is a "spillover effeet" of moves against Japanese imports. "Europe has gone from necessary protectionism to unnecessary so that others, such as U.S. companies, are hurt and lame ducks are helped" he says.

On the other hand, the Reagan administration is taken to task for its sudden decision to embargo pipeline technology. Mr. Reagan acted, insiders say, because he was miffed at statements by French President Francois Mitterrand and West German Chancellor Helmut Schmidt. They, in effect, edescribed as meaningless the Versailles fammit accord on limiting export credits for his Eastern bloe. White House sources say it was largely anger over these statements what prompted Mr. Reagan to broaden the fipeline sanctions.

The community's president, Gaston Thorn, angrily dismissed the U.S. action as unjustified and as "an interference in the internal laws and affairs of other coun-

Anger Deep

Last week, U.S. Commerce Secretary Baidrige learned for himself the depth of the European anger. In Brussels for 11th hour negotiations on the steel dispute, he found the Europeans too preoccupied with the pipeline issue even to discuss steel seri-"All they wanted to do was talk about the pipeline," a senior U.S. official says. "You read a lot about European resentment the pipeline decision, but you have to see it to appreciate it."

What galled the Europeans almost as much as the decision itself was the lack of warning. The U.S. had "clearly sent mixed signals" on the subject to the Europeans, a Inite House strategist concedes. Before the ersailles economic summit in early June, former Secretary of State Alexander Haig had hinted strongly that if the Europeans made some concessions on other East-West trade issues. Mr. Reagan might ease the pipeline restrictions, which he originally imposed last winter. Instead, the president abruptly expanded them—and infuriated the Europeans. "We just felt betrayed," a top-European official says.

Boon for Russia

The irony, to officials on both sides of the Atlantic, is that the pipeline decision, which was intended to show the Soviets that the West is getting tough in its dealings with the Eastern bloc, may have widened the split between the U.S. and its West European partners. It may have turned what was supposed to have been an East-West issue into a West-vs.-West fight:

The Russians couldn't have planted it any better," a Washington-based diplomat laments. A White House strategist concedes

"We probably have come as close as we can be giving the Soviets a weeks."

A growing number of analysts, including some senior Reagan administration officials, believe that the U.S. has been too aggressive in pushing East-West trade issues. European officials make it clear that they don't share the administration's conviction that the West must wage economic war on the Soviet Union.

The U.S. could create sticky problems for itself if it tried to enforce the new sanctions on foreign-owned or foreign-based companies making equipment for the pipeline. In the view of many U.S. and Ruropean analysis, extension of U.S. regulations to cover foreign substidiaries, and licensees, violates

international trade rules.

Buropean governments — even that of Brisish Prime Minister Margaret Thatcher, the staunchest of U.S. allies have served notice that it Washington doesn't back of their will order companies based in their committee to disregard U.S. law The American sanctions already have been undersus by major West German banks, which on Thesian agreed to extend up to \$1.6 billion in credits to the Soviets for construction of the predities.

That more would set the stage for a configuration with the Reagan administration.

See a Washington-based diplomat: "The least problems may be so enormous that the pipuline decision loses its whole practical effect." Paris-based J. Paul Horne of Smith Barney; Harris Upham believes that the pipuline could be tied up in legal disputes for wars.

But U.S. strategists insist that any European hopes that the U.S. will back away from the pipeline-technology embargo without change in Poland are illustry. "Our message is that it ought to be not belief

want to stay the course. The big issue and our policy interest are too important to be subject to short-term whims."

Despite these uncertainties, the deterior ration of U.S. European relations should be put into perspective, some observers say. Robert E. Hunter, a European specialist at the Georgetown University Center for Strategic and International Studies, finds the economic disputes haven't, as yet, affected Western security. "The basic rudiments of the alliance are strong," he says.

Buropean officials agree. Memories are too long, they say, for short-term economic quarrels to seriously undermine the alligance. Nevertheless, they warn of the consequences of allowing the problems to fester. Balgian Foreign Minister Tindemans asks: "Has the lesson from the catastrophs of the isans not been learned."