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51141	MEMO	BAILEY TO CLARK RE SUZUKI LETTER *R 4/23/2010 NLRRM2007-081*	1	4/26/1982	B1
51142	MEMO	REGAN TO CLARK RE SUZUKI LETTER *R 10/6/2009 S07-081*	1	4/23/1982	B1
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2202

File
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(issues)

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

April 10, 1982

MEMORANDUM FOR THE HONORABLE RAYMOND J. DONOVAN
THE SECRETARY OF LABOR

SUBJECT: Trip Report Re OECD Ministerial Meeting in Paris, March 4-5, 1982

Thank you for your detailed and interesting report on the OECD Ministerial meeting of the Manpower and Social Affairs Committee in Paris on March 4-5. You identify the tough issues we face in our dialogue with OECD partners. Your spirited defense of the Administration's policies is a standard for us all to follow.

Bill

William P. Clark

FOR STAFFING 2

U.S. DEPARTMENT OF LABOR

2202

SECRETARY OF LABOR
WASHINGTON, D.C.

MAR 30 1982

MEMORANDUM FOR: WILLIAM CLARK
Assistant to the President
for National Security Affairs

FROM: RAYMOND J. DONOVAN Raymond J. Donovan

SUBJECT: OECD Ministerial Meeting
Paris, France
March 4-5, 1982

Pursuant to the President's memorandum of February 22, 1982 regarding foreign travel, attached is a report of my recent trip to the OECD Ministerial Meeting of the Manpower and Social Affairs Committee in Paris.

Attachment

1201

Secretary of Labor Raymond J. Donovan's Report on the OECD Ministerial Meeting of the Manpower and Social Affairs Committee, March 4-5, 1982 in Paris

General

Labor Ministers from the 24 OECD member countries met under the auspices of the Manpower and Social Affairs Committee, March 4-5, to discuss policies for increasing employment and reducing unemployment in the short and medium term and policies for promoting a dynamic and adaptable labor market. I headed the U. S. Delegation and served as Vice-Chairman of the Conference. While most of the discussion dealt with the different national approaches to ameliorate the situation through social and labor market policies, the question of the underlying causes of high unemployment emerged on numerous occasions. During the discussion, Ministers split on macro-economic policies. Spearheaded by the French, Danish and Dutch delegates, a number of Europeans pointed to the high U. S. interest rates as contributing to their economic woes and resultant high unemployment. They also argued for interventionist manpower policies and a stronger government role in collective bargaining. I defended the anti-inflationary policies of the Reagan Administration as holding the key to economic recovery and increased employment in the medium and long term. While Ministers agreed to a balanced presentation in the final communique, the divergent views which emerged during the meeting are likely to be echoed at the May 10-11 OECD Council Ministerial Meeting.

Specific Comments

- The plenary meeting of the Ministerial on March 4 was highlighted by my remarks early in the session which set the tone for the rest of the morning's discussions. I noted the rights of workers in the OECD countries to join unions and their freedom of speech and assembly. I contrasted this to the situation in Poland and the suppression of the human rights of workers there. Although there were no strong sentiments on Poland expressed by other delegations, our concern appeared to have been received with understanding and silent agreement.

• I pointed out U. S. optimism over the prospects for short and medium term economic recovery in the U. S. and expectation of early resumption of growth in productivity and employment. This, I said, should ease government and spur economic recovery elsewhere. I emphasized that stable monetary policies, and policies which place greater reliance on the private sector, would offer more promising remedies to current labor market problems.

• Unlike my optimism, many Minister's remarks showed evidence of pessimism in dealing with their current unemployment problems, highlighting the need for the group to concentrate on ways to create jobs and promote industrial rebirth through new programs and initiatives. Many Ministers, including the Canadians, were critical of U. S. monetary and fiscal policies.

• During the ensuing discussion on the role of governments in the social dialogue, I said the government's role should be indirect, leaving the negotiations to those most familiar with the problems at hand - management and labor. I emphasized that collective bargaining is strengthened by governments adopting a hands-off policy. I cited the satisfactory outcome of the UAW-Ford talks recently completed as an example of the benefits that arise out of this Administration's policy on contract deliberation. Other member countries were not in agreement with our view on this approach. A number of delegates strongly argued that government must play an active role to assure balance in the negotiations. The British said that there was a need for "mutual understanding between government and the social partners - rather than bargaining," but the more socialist members said their governments would favor greater involvement. For example, the French Minister said 600 offices would be set up in the provinces to function as "moderators" in labor/management contracts.

• Another issue which was frequently raised was the creation of job-sharing or part-time employment. The Europeans were especially vocal on this concept as a means to cut unemployment and create work possibilities for new entrants to the job market - especially for women and hard-to-employ youth. As both these segments of the labor market increase in Europe, this technique was viewed as the easiest way out of a social predicament. However, most delegates admitted that the concept could distort salaries and benefits in the economy and could

5

have the unintended effect of increasing unemployment by raising production costs. But clearly, the concept has taken root in western Europe and will become more prominent in the employment picture. Some Europeans wanted to pursue the concept of international coordination and/or cooperation in job sharing at least among neighboring countries in a region.

- This discussion led me to describe the successes and failures of the U. S. Comprehensive Employment and Training Administration (CETA) program and outline the structure of the Administration's new job training program. There was special interest by other delegations in the shift in dollar percentages being spent on training of special groups. This was an area of keen interest prompting a number of delegates to discuss their experiences and experiments in training, especially with youth, to prepare workers for more technically oriented positions in modern industry and services.

- The problem of restoring profitability, especially in European industries, was a theme highlighted in the issues papers and repeated both in the plenary discussions and outside meetings. Some Ministers and the Secretary General emphasized that rising unemployment resulted from the combination of increasing numbers of job seekers (European post-war baby BOOM) and declining private investment in job-creating activities. Only in a climate of increased profitability could the needed investment take place. It was noted, however, that the current inflexibility in labor markets is a serious obstacle. The Secretary General believed that a more realistic approach towards labor mobility, wage demands and non-wage labor costs is required. We expect that the Secretary General will repeat this line of thought at the OECD Ministerial Council Meeting in May.

TUAC/BIAC Consultations

- On the day prior to the ministerial meetings, the bureau held consultations with the Trade Union Advisory Committee (TUAC) and the Business and Industry Advisory Committee (BIAC). TUAC argued that economic growth alone is not enough to resolve the crisis of unemployment because of the magnitude of jobs lost due to technological change. They emphasized the need for special job creation programs, expanded public investment, adoption of some form of work-sharing and more government participation in the social dialogue. In BIAC's view, the restoration of profitability, which depended to a large degree on greater flexibility in labor markets, was the key to job creation. Only under these conditions would the needed private investment occur. BIAC also strongly opposed work-sharing and supported continued anti-inflationary policies.

Bilateral Meetings

- I held bilateral meetings with Neil Brown, Youth and Employment Minister from Australia, and Norman Tebbit, Minister of Labor of the United Kingdom. The meetings were cordial and both Ministers were very supportive of each other's positions during these meetings and during the ministerial itself. I also made courtesy calls on OECD Secretary General Van Lennep and French Labor Minister Jean Auroux. The Secretary General acknowledged that different economic circumstances require different solutions and felt that the U. S. should continue its fight against inflation. He noted that in Europe the wage structure was out of line and it needed to be lowered. The call on Minister Auroux dealt mainly with an exchange of view on decentralization of economic authority and the prospects for economic recovery. A courtesy call was also paid on Ambassador Galbraith.

Participants

Twenty-one of the 24 OECD member governments were represented by Ministers. Representatives from the European Free Trade Association, International Labor Office, Council of Europe and the Commission of European Communities were also in attendance. The U. S. Delegation consisted of the following officials:

Representative

The Honorable Raymond J. Donovan
Secretary of Labor

Alternative Representative

The Honorable Abraham Katz
United States Permanent Representative
to the OECD

U. S. Delegate to the Manpower and Affairs Committee

C. Michael Aho
Director, Foreign Economic Research Staff
Bureau of International Labor Affairs
Department of Labor

Advisors

John Cogan
Assistant Secretary
Policy, Evaluation and Research
Department of Labor

Robert W. Searby
Deputy Under Secretary
International Affairs
Bureau of International Labor Affairs
Department of Labor

Arthur Reichenback
International Economist
European Affairs Bureau
Department of State

MW
8

MEMORANDUM #2202

NATIONAL SECURITY COUNCIL

ACTION April 6, 1982 SIGNED

MEMORANDUM FOR WILLIAM P. CLARK

FROM: HENRY R. NAU HRN

SUBJECT: Secretary Donovan's Trip Report

Ray Donovan reports to you on his meeting with the OECD Labor Ministers in Paris on March 4-5. His report echoes themes which we are likely to hear again at the OECD Ministerial in May and the Versailles Summit in June:

-- France, Denmark and Holland led the charge against high U.S. interest rates.

-- These same countries spearheaded arguments for interventionist labor policies and a stronger government role in collective bargaining.

-- Most of the participants were highly pessimistic.

-- Europeans favored job creation by government for new entrance to the job market, especially women and hard-to-employ youth.

-- OECD Secretary General Van Lennep pointed out that inflexibility in the labor markets is a serious obstacle.

-- Business advisory groups emphasized growth and greater flexibility in labor markets as the key to job creation. Trade union groups emphasized special job creation programs through public investment.

I have attached a short note from you to Donovan thanking him for his thorough report.

RECOMMENDATION: That you sign the note to Donovan at Tab I.

APPROVE ✓ DISAPPROVE ________

Attachments

Tab I Note to Donovan
II Donovan Trip Report

9

116

National Security Council
The White House

Package # ____________

	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter	1	P	
Bud McFarlane	2	M	
Jacque Hill	3		
Judge Clark	4	✓	A
John Poindexter			
Staff Secretary			
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EXDIS BRUSSELS FOR USEC, EMBASSY INFO ONLY
E. O. 12Ø65: GDS 4/12/88 (BUCKLEY, JAMES)
TAGS: EFIN
SUBJECT: EAST-WEST ECONOMIC ISSUES AT SUMMIT PREPARATORY MEETING; USG TO HOST MEETING ON APRIL 23

RE". PARIS 12779 (NOTAL)

1. ~~CONFIDENTIAL~~ - ENTIRE TEXT.

2. IN BILATERAL CONVERSATIONS FOLLOWING UP THE BUCKLEY VISIT, WE HAVE MENTIONED THAT WE WANTED TO CONTINUE MULTILATERAL DISCUSSIONS ON EAST-WEST FINANCIAL ISSUES IN THE SUMMIT FRAMEWORK. IN PARTICULAR, WE WANT THE QUESTION OF RESTRAINING CREDITS TO THE SOVIET UNION TO BE DISCUSSED IN A SEPARATE GROUP MADE UP OF REPRESENTATIVES OF THE SUMMIT SEVEN, BUT ONE IN WHICH SHERPAS DO NOT NECESSARILY PARTICIPATE. WHAT WE HAVE IN MIND IS A SEPARATE MEETING OF POLICY LEVEL OFFICIALS ACCOMPANIED PERHAPS BY EXPERTS TO DISCUSS AND NEGOTIATE A MECHANISM FOR RESTRAINING WESTERN CREDITS TO THE SOVIET UNION. WE WOULD HOPE THAT THIS SEPARATE GROUP MIGHT HOLD AN INITIAL MEETING BEFORE THE SHERPAS MEET NEXT. IF THE SHERPAS WISH, THIS SEPARATE GROUP COULD PREPARE A REPORT FOR THEM.

CLEARLY, THE SHERPAS WOULD WANT TO DISCUSS THIS ISSUE IN ORDER TO INTEGRATE IT INTO SUMMIT PLANNING, BUT THE MAIN WORK SHOULD BE DONE IN THE SEPARATE GROUP.

3. GIVEN THE SHORT TIME BETWEEN NOW AND THE NEXT SHERPA MEETING, THE U. S. HAS DECIDED TO MOVE AHEAD AND INVITE THE SUMMIT SEVEN COUNTRIES AND THE EC COMMISSION TO SEND REPRESENTATIVES TO A SEPARATE MEETING (AS DESCRIBED ABOVE PARA 2) TO DISCUSS THE QUESTION OF RESTRAINING CREDITS TO THE SOVIET UNION. WE WOULD LIKE THE MEETING TO BE HELD ON APRIL 23 AND LAST ONE DAY. AT THE MOMENT, WE HOPE TO HOST THE MEETING AT THE U. S. EMBASSYIN LONDON. HOWEVER, A CONTINUATION OF THE FALKLAND ISLANDS DISPUTE MAY REQUIRE A CHANGE OF VENUE.

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

EXDIS

4. IN OUR VIEW, THE MEETING SHOULD BE SMALL SO IT WILL NOT DRAW PUBLIC ATTENTION. UNDER SECRETARY BUCKLEY WILL CHAIR U.S. DELEGATION. WE HOPE THAT OTHER COUNTRIES WOULD BE REPRESENTED AT EQUIVALENT LEVEL.

5. ACTION ADDRESSEES: PLEASE CONVEY ABOVE TO HOST GOVERNMENT OFFICIALS AND REQUEST THEIR GOVERNMENT'S PARTICIPATION IN MEETING AT PROPER LEVEL. WHILE THE SIZE OF U.S. DELEGATION NOT DETERMINED, IT WILL BE KEPT SMALL; OTHERS SHOULD BE ENCOURAGED TO DO LIKEWISE.

EXDIS

6. FOR PARIS: WE ARE NOT CERTAIN WHETHER ATTALI RESPONSE (REFTEL) INDICATES RELUCTANCE TO CONVENE AND CHAIR THIS SEPARATE GROUP OR WHETHER FRENCH HAVE JUST MISUNDERSTOOD OUR PROPOSAL FOR UNDERTAKING CONTINUING DISCUSSIONS ON THIS ISSUE IN THE SUMMIT FRANEWORK. WE HAD UNDERSTOOD FROM THE GERMANS (WHO SAID THEY HAD DISCUSSED THIS WITH THE FRENCH) THAT THE FRENCH MIGHT BE PREPARED TO CONVENE AND CHAIR A SEPARATE GROUP AS DISCUSSED ABOVE. WE HAD HOPED TO HAVE THEIR POSITIVE RESPONSE IN ORDER TO ARRANGE CONVENIENT DATES, ETC. GIVEN OUR STRONG PREFERENCE TO HOLD THIS MEETING ON APRIL 23 RATHER THAN ON THE FRINGES OF THE SHERPAS MEETING, WE HAVE DECIDED TO GO AHEAD ON OUR OWN TO CONVENE THE MEETING. WE WILL BE DISCUSSING THIS IN MORE DETAIL WITH FRENCH AMBASSADOR IN WASHINGTON IN A ROUND OF BILATERAL DISCUSSIONS WITH SUMMIT AMBASSADORS (EXCEPT FRG AND CANADA) AND THE EC COMMISSION REPRESENTATIVE LATE THIS WEEK OR EARLY NEXT WEEK. HOWEVER, WE ALSO HOPE TO HAVE OPPORTUNITY TO HAVE BILATERAL WITH FRENCH IN PARIS ON THIS ISSUE PRIOR TO APRIL 23 (WE WILL ADDRESS THIS IN SEPTEL).

EXDIS

- -

7. FOR LONDON: ASSUME THAT EMBASSY HAS FACILITIES FOR SUCH A MEETING IF FALKLAND ISSUE IS QUIETER BY THEN. ALSO ASSUME THAT HMG WOULD NOT OBJECT TO MEETING BEING IN LONDON, BUT WOULD APPRECIATE YOUR CHECKING WITH THEM ASAP AND GETTING BACK TO US.

EXDIS

8. ACTION ADDRESSEES: OUR STRONG DESIRE IS FOR OTHER PARTICIPANTS IN MEETING TO BE FROM FOREIGN AFFAIRS AND FINANCE MINISTRIES, NOT REPEAT NOT FROM EXPORT CREDIT AGENCIES. HAIG
BT

NATIONAL SECURITY COUNCIL MESSAGE CENTER

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TAGS: ENRG
SUBJECT: US PAPER FOR SUMMIT HLMG: CONSTRAINTS TO ENERGY INVESTMENT

REF: PARIS 7ØØ2

1. AT THE FEBRUARY 25 MEETING OF THE SUMMIT HLMG, THE US AGREED TO PREPARE A PAPER FOR OTHER SUMMIT PARTICIPANTS ON OBSTACLES TO ENERGY INVESTMENT (OTHER THAN INTEREST RATES) FOR CONSIDERATION BY THE NEXT HLMG, SCHEDULED FOR APRIL 19-2Ø. FOLLOWING AT PARA 2 BELOW IS THE TEXT OF THE US PAPER AS APPROVED BY THE INTERAGEN-Y GROUP ON INTERNATIONAL ENERGY POLICY. EMBASSIES ARE REQUESTED TO PASS US PAPER TO HOST COUNTRY OFFICIAL WHO WILL ATTEND HLMG MEETING, EXPLAINING THAT IT REPRESENTS THE US CONTRIBUTION TO THE DISCUSSION AS AGREED AT THE LAST MEETING.

2. BEGIN TEXT:
CONSTRAINTS TO ENERGY INVESTMENT

A FREE AND OPEN SYSTEM FOR TRADE AND INVESTMENT WOULD ENSURE THAT SCARCE CAPITAL IS MOST PRODUCTIVELY EMPLOYED. THE ENERGY SECTORS OF OUR ECONOMIES WOULD BENEFIT FROM IMPLEMENTATION BY SUMMIT COUNTRIES OF BROAD INITIATIVES DESIGNED TO REDUCE BARRIERS TO INVESTMENT FLOWS. OVER THE NEXT DECADE INVESTMENT IN ENERGY PROJECT WIL REPRESENT A SIZABLE PORTION OF TOTAL INVESTMENT AND HAS THE POTENTIAL TO MAKE A PARTICULARLY IMPORTANT CONTRIBUTION TO WESTERN ECONOMIC RECOVERY. ENERGY INVESTMENT, HOWEVER, REQUIRES SPECIAL ATTENTION FOR FOUR INTERRELATED REASONS:

1. THE PROLIFERATION OF DISCRIMINATORY PRACTICES TOWARD FOREIGN INVESTMENT IS PARTICULARLY ACUTE IN THE ENERGY SECTOR. THESE PRACTICES, TOGETHER WITH UNECONOMIC ENERGY PRICING AND BURDENSOME REGULATIONS, THREATEN TO CONSTRAIN ENERGY INVESTMENT;

2. ENERGY INVESTMENTS ARE EXCEPTIONALLY RISKY. DOMESTIC ENERGY MARKETS ARE SUBJECT TO UNCERTAINTY, BECAUSE OF OUR ECONOMIES' DEPENDENCE ON IMPORTED SUPPLIES OF ENERGY ORIGINATING FROM POLITICALLY VOLATILE REGIONS. SINCE ENERGY PROJECTS CHARACTERISTICALLY HAVE LARGE CAPITAL REQUIREMENTS AND LONG LEAD TIMES, THIS UNCERTAINTY WEIGHS HEAVILY ON INVESTORS.

3. THESE PROBLEMS ARE ESPECIALLY ACUTE IN THOSE NON-OPEC DEVELOPING COUNTRIES, WHERE POTENTIAL FOR INCREASED ENERGY PRODUCTION MAY EXIST.

4. FINALLY, IN A GROWING NUMBER OF COUNTRIES BOTH DEVELOPED AND DEVELOPING, THE PUBLIC PERCEPTION OF A REDUCED NECESSITY FOR, AND A DELETERIOUS ENVIRONMENTAL IMPACT OF, CERTAIN KINDS OF ENERGY INVESTMENT SERVES AS AN ADDITIONAL CONSTRAINT.

DISCRIMINATORY PRACTICES, UNECONOMIC PRICING AND BURDENSOME REGULATIONS

DISCRIMINATORY INVESTMENT PRACTICE AT THE NATIONAL LEVEL ARE A MAJOR CONSTRAINT TO ENERGY INVESTMENT. THESE PRACTICES INCLUDE:

-- UNFAVORABLE CONDITIONS RELATING TO EQUITY PARTICIPATION, TECHNOLOGY TRANSFER, AND FINANCING;

-- BURDENSOME PERFORMANCE REQUIREMENTS;

-- RETROACTIVE CHANGES IN INVESTMENT RULES THAT ADVERSELY AFFECT INVESTMENTS ALREADY IN PLACE.

PRIVATE INVESTORS, FACED WITH AN ARRAY OF GOVERNMENT-;MPOSED INVESTMENT CONDITIONS SUCH AS OWNERSHIP TESTS, LOCAL SOURCING COMMITMENTS, LENGTHY ADMINISTRATIVE PROCEEDINGS AND COSTLY AND UNCERTAIN TAXATION AND ROYALTY REGIMES, MAY FOREGO WHAT OTHERWISE MIGHT BE VERY PROMISING INVESTMENTS. WITH COSTS AND TECHNICAL COMPLEXITIES MOUNTING AS NEW EXPLORATION AND DEVELOPMENT PROJECTS PUSH INTO MORE AND MORE DIFFICULT REGIONS, THESE CONSTRAINTS ONLY COMPOUND ALREADY HIGH MARKET RISKS AND LENGTHY LEAD TIMES, SOMETIMES TO UNACCEPTABLE LEVELS.

EVEN WHEN THERE IS NO DISCRIMINATION AGAINST EXTERNAL CAPITAL, ENERGY INVESTMENT IS OFTEN HINDERED BY BURDENSOME REGULATIONS AND UNECONOMI- PRICING OF ENERGY. EXAMPLES ABOUND AS TO THE IMPORTANCE OF THE MARKET, YET THERE ARE STILL A NUMBER OF CASES IN SUMMIT COUNTRIES WHERE MARKET IMPEDIMENTS ARE EVIDENT: CANADIAN DOMESTIC OIL PRICES REMAIN BELOW INTERNATIONAL LEVELS; BRITISH MONOPSONISTIC PRACTICES KEEP U.K. GAS PRODUCER PRICES AT RELATIVELY LOW LEVELS (ALTHOUGH THIS POLICY MAY SOON CHANGE IN AN EFFORT TO STIMULATE GREATER EXPLORATION AND PRODUCTION); THE UNITED STATES CONTINUES TO REGULATE NATURAL GAS PRICES; GERMANY MAINTAINS A SYSTEM OF COAL IMPORT QUOTAS; AND IN ITALY, FRANCE AND JAPAN, GOVERNMENT CONTROL SLOWS THE RESPONSE OF DOMESTIC OIL MARKETS TO INTERNATIONAL DEVELOPMENTS. ALL OF THESE CONDITIONS EXIST DUE TO SPECIFIC AND PERHAPS UNDERSTANDABLE POLITICAL FACTORS AND THEY WILL BE DIFFICULT TO CHANGE. NEVERTHELESS, SUMMIT COUNTRIES SHOULD COMMIT THEMSELVES TO REMOVE MARKET IMPEDIMENTS AND TO ALLOW DOMESTIC ENERGY PRICES TO REFLECT INTERNATIONAL LEVELS.

THE ADOPTION OF SOUND, MARKET-BASED ENERGY PRICING

POLICIES THEREFORE CAN BE A MAJOR ELEMENT IN MEETING THE ENERGY INVESTMENT CHALLENGE.

INTERNATIONAL MARKET UNCERTAINTY

INTERNATIONAL ENERGY MARKETS ARE SUSCEPTIBLE TO SUDDEN SUPPLY INTERRUPTIONS AND CARTEL ACTION DESIGNED

TO INFLUENCE PRICES. EXTERNAL INFLUENCE OVER ENERGY MARKETS CREATES ACUTE UNCERTAINTY FOR INVESTORS IN ENERGY PROJECTS, AND ALSO FOR SECTORS OF THE ECONOMY THAT ARE STRONGLY AFFECTED BY ENERGY DEVELOPMENTS, E.G.

AUTOMOBILES. THIS UNCERTAINTY COULD POSE A SERIOUS BARRIER TO NEW INVESTMENT, PARTICULARLY FOR LARGE, CAPITAL-INTENSIVE PROJECTS WITH LONG LEAD TIMES.

GOVERNMENT IS NOT WELL-EQUIPPED TO REDUCE MARKET UNCERTAINTY. GOVERNMENTS ARE ABLE TO TAKE ACTION WHICH WILL RESULT IN FREER DOMESTIC ENERGY MARKETS WHICH THEN WILL ENSURE THAT INVESTMENT DECISIONS ARE CONSISTENT WITH MARKET SIGNALS. IT IS VERY IMPORTANT THAT PRICE UNC RTAINTY INHERENT IN WORLD ENERGY MARKET NOT BE COMPOUNDED BY UNCERTAINTY GENERATED BY INTERVENTIONIST GOVERNMENT POLICIES.

BECAUSE ENERGY INVESTMENT PROJECTS ARE LARGE AND RISKY, THERE IS A NEED TO SPREAD RISKS ACROSS COUNTRIES AND TECHNOLOGIES. UNRESTRICTED INVESTMENT FLOWS FACILITATE THE SPREADING OF RISK ACROSS COUNTRIES. WE NEED TO ENSURE THAT OUR POLICIES FACILITATE INTERNATIONAL CAPITAL FLOWS, THEREBY PROMOTING THE DEVELOPMENT OF AN OPTIMUM ENERGY MIX, INCLUDING OIL, GAS, COAL, NUCLEAR AND RENEWABLES.

UNIQUE PROBLEMS OF NON-OPEC DEVELOPING COUNTRIES

ANALYSTS EXPECT THAT MUCH OF THE INCREASE IN ENERGY DEMAND DURING THE NEXT DECADE WILL OCCUR IN THE DEVELOPING COUNTRIES. MANY DEVELOPING COUNTRIES HAVE VERY SIGNIFICANT ENERGY PRODUCTION OPPORTUNITIES AS WELL, BUT NECESSARY FLOWS OF PRIVATE INVESTMENT ARE CONSTRAINED BY MANY OF THE SAME FACTORS WHICH AFFECT DEVELOPED COUNTRIES -- PRICE UNCERTAINTY, INVESTMENT POLICY CONDITIONS, THE CAPITAL-INTENSIVE NATURE OF ENERGY PROJECTS, REGULATORY POLICIES -- AS WELL AS OTHERS RELATIVELY UNIQUE TO DEVELOPING COUNTRIES.

THE RISK OF ADVERSE HOST GOVERNMENT ACTION IS CLEARLY AMONG THE MAJOR CONSTRAINTS TO INVESTMENT IN ENERGY IN DEVELOPING COUNTRIES. REPEATEDLY, THE ENERGY SECTOR HAS BEEN THE EMOTIONAL TARGET FOR NATIONALIZATIONS, CONTRACT ABROGATIONS AND DISCRIMINATORY TREATMENT IN THE PAST, AND THE INSTABILITY OF MANY DEVELOPING COUNTRY GOVERNMENTS LEADS INVESTORS TO FEAR SUCH ACTIONS IN THE FUTURE. THIS MEANS THAT EVEN REASONABLE AND NON-DISCRIMINATORY INVESTMENT POLICY TERMS AND CONDITIONS OFFERED BY

DEVELOPING COUNTRIES ARE DISCOUNTED BY INVESTORS AGAINST THE RISK OF FUTURE POLITICAL CHANGE, IMPEDING OPTIMUM ENERGY INVESTMENT.

A RELATED CONSTRAINT IS THE SEVERE BALANCE OF PAYMENTS PROSPECTS OF MANY DEVELOPING COUNTRIES. ALTHOUGH OFTEN -AUSED BY BALLOONING OIL BILLS, PAYMENT PROBLEMS NEVERTHELESS MEAN DEVELOPING COUNTRIES DO NOT HAVE ACCESS TO INTERNATIONAL CREDIT MARKETS TO FINANCE PROJECTS NEEDED TO REDUCE FUTURE OIL IMPORT BILLS. AND BECAUSE FOREIGN EXCHANGE SHORTAGES MAKE FUTURE PROFIT REMITTANCES CHANCY, PRIVATE EQUITY INVESTORS ARE LIKEWISE LEERY OF OTHERWISE SOUND INVESTMENT OPPORTUNITIES. MANY DEVELOP NG COUNTRIES MAY FACE RELATIVELY GREATER ENERGY INVESTMENT CHALLENGES THAN DEVELOPED COUNTRIES. THESE COUNTRIES ARE LIKELY TO REQUIRE A GROWING SUPPLY OF ENERGY PER CAPITA TO SUPPORT ECONOMIC GROWTH, EVEN WITH IMPROVED ENERGY EFFICIENCY. THIS WILL REQUIRE INVESTMENT IN ELECTRIC POWER GENERATION AND DISTRIBUTION IN PARTICULAR, AND INCREASING QUANTITIES OF FOSSIL FUELS FOR TRANSPORT AND AGRICULTURE.

FINALLY, THE DEVE.OPING COUNTRIES MUST NOT NEGLECT TRADITIONAL ENERGY SOURCES. FUELWOOD, ANIMAL WASTES AND DRAUGHT ANIMAL POWER STILL PROVIDE A LARGE PORTION OF ENERGY SUPPLIES, PARTICULARLY IN RURAL AREAS. YET DEFORESTATION AND ABANDONMENT OF TRADITIONAL ENERGY SOURCES THREATEN TO LEAD TO INCREASED OIL IMPORTS AND FURTHER BALANCE OF PAYMENTS BURDENS AND OTHER PROBLEMS SUCH AS EROSION.

PUBLIC PERCEPTIONS OF ENERGY INVESTMENTS

CERTAIN TYPES OF ENERGY INVESTMENTS HAVE BEEN CONSTRAINED BY ADVERSE PUBLIC REACTIONS OR THE FEAR OF SUCH REACTIONS. THIS DIFFICULTY IS MOST EVIDENT IN PUBLIC PERCEPTIONS OF THE SAFETY RISKS AND ENVIRONMENTAL HAZARDS OF NUCLEAR POWER, AND CONCERNS REGARDING IMMEDIATE AND LONG-RANGE POLLUTION AND CLIMATI- EFFECTS OF THE USE OF COAL. IN MANY DEVELOPE COUNTRIES, ANTI-NUCLEAR ACTIVIST GROUPS DELAY AND COMPLICATE NUCLEAR POWER INVESTMENT AND SITING DECISIONS. DRAWN-OUT ENVIRONMENTAL DISPUTES AND PROCEEDINGS CAN CHANGE PROJECT ECONOMICS, AND THE EXPECTATION OF SUCH PROBLEMS CAN DETER INVESTORS FROM OTHERWISE ATTRACTIVE INVESTMENT OPPORTUNITIES. PUBLIC PERCEPTIONS THAT BASIC PROBLEMS OF WASTE MANAGEMENT AND LONG TERM DISPOSAL ARE NSOLVED AND/OR UNSOLVABLE CAN ALSO IMPEDE NUCLEAR PROGRAMS AT THE NATIONAL LEVEL.

GROWING PUBLIC AWARENESS AND CONCERN REGARDING ENVIRONMENTAL HAZARDS ASSOCIATED WITH INCREASED USE OF COAL -- SULFUR DIOXIDE EMISSIONS AND THEIR POSSIBLE CONNECTION WIT; ACID RAIN, CARBON DIOXIDE AND CONCERNS OVER THE

"GREENHOUSE" EFFECT -- CAN IMPAIR INVESTMENT IN UTILITY CONVERSION TO COAL, EVEN THOUGH IT AY BE A NATIONAL ENERGY POLICY PRIORITY. ENVIROMEENTAL CONCERNS AND PROCEEDINGS HAVE ALSO DELAYED OR DEFERRED INVESTMENTS IN OFFSHORE EXPLORATION AND LNG RECEPTION PLANTS.

A MORE BASIC PROBLEM OF PUBLIC OPINION IS COMPLAC NCY WHICH CAN SPREAD ALONG WITH THE SOFT OIL MARKET. CONSUMER COMPLACENCY LEADS TO INAPPROPAIATE INVESTMENT DECISIONS -- RETURN TO LARGER CARS, EROSION OF EFFICIENCY GAINS ETC. -- AND THE DEFERRAL OF OTHER INVESTMENTS NEEDED FOR LONG-RANGE ENERGY PROGRESS. A PARTICULAR PROGRAM IN THIS REGARD IN BOTH DEVELOPED AND D - , G COUNTRIES IS PUBLIC OPPOSITION TO UTILITY RATE STRUCTURES NECESSARY TO RAISE ADEQUATE CAPITAL FOR INVESTMENTS NEEDED TO ENSURE ENERGY SUPPLIES IN THE FUTURE.

CONCLUSION

A FREE AND OPEN SYSTEM OF TRADE AND INVESTMENT OF THE BEST PROSPECT OF FACILITATING AN OPTIMAL LEVEL OF ENERGY INVESTMENT. ALL SUMMIT COUNTRIES NEED TO CONSIDER REFORMS IN ENERGY AND/OR INVESTMENT POLICIES THAT WOULD RESULT IN A CLIMATE MORE CONDUCIVE TO OPTIMAL LEVELS OF INVESTMENT IN ENERGY. SUMMIT COUNTRIES ALSO HAVE AN INTEREST IN ENCOURAGING CONDITIONS IN WHICH ECONOMICALLY SOUND INVESTMENTS IN ENERGY PRODUCTION IN DEVELOPING

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COUNTRIES CAN TAKE PLACE. IN VIEW OF THESE CONSIDER-
ATIONS, AT HOME THE SUMMIT NATIONS SHOULD:
-- ENCOURAGE DEVELOPMENT OF AN OPTIMUM ENERGY MIX BY
COMMITTING THEMSELVES TO THE GOAL OF ELIMINATI;;
UNECONOMIC PRICE POLICIES, AND BURDENSOME REG LATIONS
AT HOME;
-- MINIMIZE DISCRIMINATORY OWNERSHIP TESTS, LOCAL
SOURCING COMMITIMENTS AND COSTLY AND UNCERTAIN
TAXATION AND ROYALTY REGIMES WHICH SERVE AS OBSTACLES
TO ENERGY INVESTMENT;
-- FACILITATE CAPITAL MOBILIZATION AND RISK-SPREADING
BY ENCOURAGING FREL INTERNATIONAL FLOW OF CAPITAL;

-- CONSIDER COMMON ACTION TO IMPROVE PUBLIC UNDER-
STANDING REGARDING THE IMPACT, SAFETY AND NECESSITY OF
ENERGY INVESTMENT FOR THE FUTURE.

-- ENCOURAGE ACCELERATED LEASING OF AREAS WITH ENERGY
DEVELOPMENT POTENTIAL.

IN CONSIDERATION OF THE UNIQUE PROBLEMS FACED BY
NON-OPEC DEVELOPING COUNTRIES, SUMMIT NATIONS SHOULD
ALSO:

-- REAFFIRM THEIR COMMITMENT TO HELP DEVELOPING
COUNTRIES TAKE NEEDED STEPS TO MOBILIZE PRIVATE INVESTMENT
CAPITAL FOR ENERGY PROJECTS, AND URGE THE MULTILATERAL
DEVELOPMENT INSTITUTIONS TO EXPLORE CREATIVE MEANS TO
ENCOURAGE GREATER PRIVATE INVESTMENT IN THE ENERGY SECTOR;

-- EXPLORE THE MERITS OF MULTILATERAL AND BILATERAL
INVESTMENT INSURANCE COVERAGE FOR PRIVATE INVESTMENT
IN THE ENERGY SECTOR, TO HELP OVERCOME THE OBSTACLES
TO THIS INVESTMENT IN DEVELOPING COUNTRIES;

-- CONTINUE TO PROVIDE TECHNICAL, POLICY AND CAPITAL
ASSISTANCE TO DEVELOPING NATIONS PURSUING EFFECTIVE
POLICIES DESIGNED TO ACCELERATE ENERGY EXPLORATION
(INCLUDING LEASING) AND EXPAND THE PRODUCTION OF ENERGY. EAGLEBURGER
BT

~~CONFI~~DENTIAL

15

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E.O. 12Ø65: RDS-1 4/17/Ø2 (BUCKLEY, JAMES L.)
TAGS: EFIN EEWT UR
SUBJECT: INTERAGENCY MISSION ON EAST-WEST ECONOMIC MATTERS:
- MULTILATERAL MEETING (APRIL 24)

REFS: (A) PARIS 23454; (B) STATE 1Ø1553

1. ENTIRE TEXT CONFIDENTIAL.

2. OUR PREFERENCE FOR HOLDING MEETING IN PARIS (REF B) REFLECTED OUR ASSUMPTION THAT THIS WOULD RESULT IN MORE PRODUCTIVE SESSION. WE HAD NOT BEEN UNDER IMPRESSION THAT FRENCH FELT AS STRONGLY ABOUT HOLDING MEETING AT RAMBOUILLET AS PAYE'S COMMENTS (REF A) SUGGEST.

3. REFLECTING THESE POINTS AND DOWNGRADING OF FRENCH PARTICIPATION IMPLIED IN PARA FOUR, REF A IF MEETINGHELD IN PARIS, EMBASSY SHOULD GO BACK TO PAYE AND ADVISE THAT:

-- WE HAD NOT REALIZED THAT FRENCH FELT SO STRONGLY ABOUT HOLDING MEETING AT RAMBOUILLET.

-- OUR CONCERN IS SOLELY IN HAVING HIGH-LEVEL MEETING AT WHICH PARTICIPANTS CAN GIVE FULL ATTENTION TO CREDIT QUESTION, TO WHICH WE ATTACH VERY GREAT IMPORTANCE.

-- WE RECOGNIZE LINK WITH SUMMIT, BUT HAD FELT THAT DISTINCTION BETWEEN SHERPA'MEETING AND MEETING ON CREDIT QUESTION WOULD BE DESIRABLE IN TERMS OF OPERATIONAL EFFICIENCY OF BOTH MEETINGS.

-- WE ARE CERTAINLY PREPARED TO PARTICIPATE IN MEETING AT RAMBOUILLET IF THIS IS FRENCH PREFERENCE AND AGREEABLE TO OTHER PARTICIPANTS. US PARTICIPANTS IN MEETING IN ADDITION TO UNDER SECRETARY BUCKLEY WILL BE PROVIDED SEPTEL. WE

~~CONFIDENTIAL~~

16

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ASSUME THAT OTHER COUNTRIES WILL GIVE FULL ATTENTION TO THIS MEETING AND WE WOULD NOT RUN INTO CONFLICTS WITH SHERPA MEETING. IF SUCH CONFLICTS LIKELY, WE WOULD PREFER SWITCHING DATE.

-- WHILE WE ARE NOT WEDDED TO APRIL 24 DATE, IT IS OUR UNDERSTANDING THAT THIS IS MOST CONVENIENT TIME FOR EUROPEANS, AND WE WENT ALONG.

4. RESPONSE TO POINT IN PARA FIVE, REF (A) REGARDING MT-20 CASE SEPTEL.

EAGLEBURGER
BT

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17

File
France
Summit
(issues)

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

April 19, 1982

MEMORANDUM FOR ROBERT HORMATS

FROM: Doral Cooper

Subject: Van Lennep's LDC Initiative

As you know, we have suggested the possibility of launching at the GATT Ministerial a major round of trade negotiations between developed and developing countries. The thrust behind the idea would be to provide bound market access opportunities for LDCs. At the same time, it would more fully integrate advanced LDCs' trading regimes in the GATT system. As the proposal now stands (it likely will be further refined), we would create a new column in our tariff schedules, between the GSP rate of zero and the MFN rate, just for the benefit of developing countries. LDCs faced with the reality of GSP graduation--this proposal would be tied to the extension of GSP where there will have to be wholesale graduation if we're going to save the program--would have the option to negotiate certain concessions (either tariffs or NTBs) in order to get this "mini-LDC rate" on products of interest to them. For our part, we would include in the "negotiating pot" all graduated GSP items as well as the 4,000 items which are not currently on GSP.

This proposal has been discussed in several interagency meetings, and Ambassador Brock has talked very quitely about it on the Hill. In addition, Mike Smith has outlined it to his developed country counterparts in Geneva and Mike and I recently discussed it during our swing through ASEAN, India and Hong Kong. The foreign responses have varied between tentatively positive to enthusiastic. There is general agreement that at a minimum the proposal will interest developing countries in the Ministerial.

I bring all this to your attention because Van Lennep's proposal entitled Trade Relations with the Developing Countries contains many ideas which are similar to our Ministerial proposal and I thought you might want to use the occasion of the XCSS to flesh out the ideas further.

In summary, Van Lennep notes that the traditional practice of exempting the NICs from normal GATT obligations has become counterproductive for the development of these economies. Not only has it encouraged an inefficient use of resources, the fact that the preferences accorded the NICs were usually temporary meant investment decisions could not be made with much assurance. Therefore, Van Lennep suggests that it is time to find a new approach "which is in the self interest of all".

He adds that the problems involved are not treatable by traditional GATT remedies. The solution Van Lennep offers is to bring together these LDCs and the industrialized countries in the GATT to form a new "code". The LDCs would be expected to rationalize their trade regimes, to lower progressively tariffs structural adjustment policies would be put in place. Poorer LDCs would then receive an increased share of development assistance and more favorable treatment under the GSP.

As you can see, there is much room for cooperation between the two ideas. I think the OECD and GATT Ministerial can work together on this one.

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Near File France Summit (issues)

MULTINATIONAL PROGRAM OF DEVELOPMENT
AND TECHNOLOGY EXCHANGE

Proposals for the revitalization of the World Economy

Objectives of the Proposals

(1) The seven heads of state of the priciple industrial democracies have strongly underlined the need to revitalize the industrial and democratic countries at the Summit meeting which was held last July. One of the principle concerns at the upcoming Versailles summit will be the search for political strategies which will foster the revitalization of the world economy, which has not yet recovered from several successive economic crises.

(2) The concerned countries must collaborate in a practical plan in order to revitalize the economy in a spirit of solidarity and cooperation in order to insure:

(a) The maintenance and reinforcement of free trade and international trade

(b) The common management of macroeconomic policies

(3) In order to give private enterprise the opportunity to regain confidence through its normal activities and in order to stimulate the independent cycle of investment and demand, it seems indispensible to assure not only an industrial collaboration between the concerned countries, but also a technological development on a global scale in order to put an end to the viscious circle created by declining demand and dwindling technological advance.

(4) In order to achieve the objective of world-wide technological development, two pressing concerns must be dealt with: the first is the implementation of a new and revolutionary technology; the second is the spread and exchange of existing technology. The development of new technology will permit the surmounting of short supplies of resources, create new jobs, benefit the standard of living of all people, and disipate all the risks which a country cannot face on its own. If the principle developed countries jointly assemble the means and the technologies at their disposal, the risks associated with technological development will be greatly reduced and there will be a much greater chance for success.

(5) It is preferable to facilitate the transfer of existing technologies to newly developing nations as a patrimony from all countries, and this will serve as a springboard for new development. Such a concept has points in common with the freedom of exchange in the service sector favored by the United States, since the U.S. envisages as a goal the liberalization and growth of international exchange in sectors other than simple trade in merchandise.

(6) Based on this concept, Japan will propose at the Versailles summit the development of technology through multinational cooperative projects and through the promotion of international exchange of technology. The directors of the principal developed countries must discuss at the Versailles meeting, which takes place during the present state of the world economic crisis, collaboration rather than conflict, growth rather than diminution, and the future rather than the past. The propositions made by Japan are a response which offers a solution to these concerns.

Details of the Proposals

(1) Development of technology through international cooperation

(a) The governments involved in the project relating to those technological developments which are not possible through a simple collaboration of industrial enterprises within the private sector.
(b) Selection of the technological development projects on a grand and small scale, designated to be followed by the principal developed countries.
(c) The projects which are the result of this choice must satisfy the following conditions:
--Projects having the potential for a technology to open new perspectives for man, or projects which will permit man to transcend the limitations posed by problems of adequate food production, shortages of natural resources, and finite supplies of energy (Projects of an INNOVATIVE character)
--Projects which will have a strong impact on the economy by the willful spread of technology, stimulation of demand, creation of new jobs, etc. (Projects of a GLOBAL SCALE)
--Projects which can facilitate existing technologies, research, information, and goals of participating countries (Projects of a COLLECTIVE character)
(See appendix for examples of such projects)

(2) Promotion of Technological Exchange

(a) In issues relating to the export of technology, as well as to the export of merchandise, the principles of free trade must be adopted without the imposition of artificial restrictions, and the existing obstacles must be eliminated to the greatest extent possible.

(b) The promotion of the exchange of technological information and research must be assured.

III. Plan for the Promotion of Projects

(1) These proposals will be presented at the Summit, to be held at Versailles this June, by Japan after preliminary consultations with the other participating Summit nations. The agreement of the participating countries will be necessary at least for the the implementation of Phase One of the plan, which is described below.

(2) Phase I
(a) Formation of a working group of participating Summit nations charged with the responsibility of establishing a program of cooperation in the development and exchange of technology.
(b) The working group will have as its mission the study and formation of an agreement before the convening of the 1983 Summit:
--The choice of projects towards the object of common development and technical and economic evaluations of these projects
--A detailed system of actually implementing these projects
--an evaluation of the existing problems involved in the promotion of technological exchange among the developed countries.

(3) Phase II
(a) The system developed for the implementation of the projects will be perfected; a practical method for the application of strategies for a common development of technology and technological exchange
(b) The participating countries will center their political strategies on the points indicated by the working group (indicated in (2) (a) above) of the "Common Development Plan"; these strategies will conform to the chosen goals and information exchanges; after this implementation of strategies, the concerned countries can begin the stage of actually implementing the projects:
--Projects in which the countries intend to participate and take charge
--Roles, forms, and responsibilities of their participation
--expected expenses, other details
--Concerning the "exchange of technologies", the international laws relating to the export of technology must be elaborated and the international system of access to technological information must be reinforced, following the conclusion of Phase I.

Appendix

EXAMPLE OF PROJECTS RELATING TO INTERNATIONAL COOPERATIVE RESEARCH

I. Collaboration among developed countries

1. Industrial robots (and "thinking"robots)
2. Artificial organs and advanced systems of medical treatment
3. Technology for the treatment and disposal of radioactive materials
4. High-performance electric automobiles
5. Technological exploration of resources by satellite

II. Collaboration reccomended for the developing nations

1. The planning and implementation of a system for using micro-computers
2. Teaching systems using satellites
3. The implementation and subsequent transfer of new energy systems and renewable energy systems
4. Synthetic systems of food production

30

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E.O. 12Ø65: XGDS-3, 4/24/Ø2 (CLARK, WILLIAM JR.) OR-M
TAGS: EFIN, JA, US, OVIP (BUSH, GEORGE)
SUBJECT: LETTER FROM PRIME MINISTER SUZUKI TO THE PRESIDENT

1. (S-ENTIRE TEXT.)

2. DURING BRIEF TETE-A-TETE MEETING WITH THE VICE PRESIDENT AFTER THE ARRIVAL CEREMONY ON THE MORNING OF APRIL 24, PRIME MINISTER SUZUKI HANDED THE VICE PRESIDENT THE FOLLOWING UNSIGNED LETTER TO THE PRESIDENT:
QUOTE. 1. AS YOU ARE NO DOUBT AWARE, JAPAN IS CONTINUING ITS EFFORTS TO OPEN ITS MARKET FURTHER. WE ARE WORKING HARD TO PUT TOGETHER THE SECOND STAGE OF THESE MEASURES PRIOR TO THE VERSAILLES SUMMIT, AND ARE PLANNING TO ANNOUNCE THEM BEFORE LONG.

2. AT THE SAME TIME, I CONSIDER IT ESSENTIAL FOR THE SUBSTANTIAL IMPROVEMENT OF THE TRADE IMBALANCES BETWEEN JAPAN AND THE UNITED STATES AND BETWEEN JAPAN AND THE EUROPEAN COUNTRIES THAT, IN ADDITION TO OUR EFFORTS TO OPEN OUR MARKET FURTHER, THE EXCHANGE RATE OF THE YEN AGAINSTTHEDOLLAR BE MAINTAINED IN SUCH A MANNER AS TO MINIMIZE DISRUPTIVE TRANSACTIONS IN THE MARKET.

3. THE LOPSIDED TRADE IMBALANCE BETWEEN OUR TWO COUNTRIES IN 1977 AND 1978 WAS REDRESSED WHEN THE YEN ROSE. THIS TIME AROUND THE YEN HAS BEEN FALLING ALL THE WAY INSTEAD OF RISING, AND, AS A RESULT, JAPAN'S EXPORTS CONTINUED TO INCREASE WHILE ITS IMPORTS HAVE CONTRACTED TO FURTHER WIDEN THE TRADE IMBALANCE.

4. THE CONTINUED FALL OF THE YEN IS THE RESULT OF THE OUTFLOW OF THE LONG-TERM CAPITAL FROM JAPAN ($9.7 BILLION NET IN 1981) DUE TO THE SUBSTANTIAL DIFFERENCE IN INTEREST RATES BETWEEN THE UNITED STATES AND JAPAN. AND SINCE A SUBSTANTIAL REDUCTION IN THE INTEREST RATES OF THE UNITED STATES IS BELIEVED UNLIKELY FOR SOME TIME, THE MOOD IN THE EXCHANGE MARKET TODAY IS STILL BEARISH ABOUT THE YEN.

not much diff. in real int. rates!

5. MY GOVERNMENT HAS BEEN TRYING TO BOLSTER THE

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VALUE OF THE YEN THROUGH BUYING IT UP IN THE EXCHANGE MARKET. I AM NOW CONVINCED, HOWEVER, THAT JAPAN CANNOT CONTINUE THIS OPERATION SINGLE-HANDED FOR LONG AND THAT TO EFFECTIVELY PROTECT THE EXCHANGE MARKET FROM DISRUPTIVE TRANSACTIONS, WE NEED THE UNDERSTANDING AND COOPERATION OF YOUR GOVERNMENT AND MONETARY AUTHORITIES. AS AN EXAMPLE OF THE SUCCESS OF SUCH AN INTER-NATIONAL COOPERATION, WE CAN RECALL THE JOINT INTERVENTION BY THE MONETARY AUTHORITIES OF THE UNITED STATES, JAPAN, WEST GERMANY AND SWITZERLAND IN NOVEMBER 1978.

6. I THEREFORE PROPOSE THAT WE INSTRUCT THE EXPERTS OF THE MONETARY AUTHORITIES OF OUR TWO COUNTRIES TO MEET PROMPTLY TOGETHER TO FIND OUT HOW TO EFFECTIVELY COPE WITH THE PRESENT TREND IN THE EXCHANGE MARKET.
I SHOULD APPRECIATE IF YOU WOULD LET ME KNOW YOUR REACTION.

7. FURTHER, AS THERE ARE REASONS TO BELIEVE THAT THE EUROPEAN COUNTRIES ARE ALSO INTERESTED IN SUCH A SCHEME, I AM THINKING OF CALLING UPON OUR EUROPEAN FRIENDS AS WELL. IF WE CAN SUCCEED IN FINDING A NEW ARRANGEMENT AMONG THE UNITED STATES, JAPAN AND EUROPE FOR STABILIZING OUR CURRENCIES, IT WILL BE MOST SIGNIFICANT FOR THE REVITALIZATION OF THE WORLD ECONOMY AND WILL CONSTITUTE A MOMENTOUS ACHIEVEMENT IN THE FORTHCOMING VERSAILLES SUMMIT.
MANSFIELD
BT

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TAGS: EFIN, EEWT
SUBJECT: BUCKLEY INTERAGENCY MISSION--MEETING WITH SUMMIT SEVEN REPS

1. (S - ENTIRE TEXT).

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NSC FOR BAILEY
E.O. 12Ø65: RDS-1 4/24/Ø2 (BUCKLEY, JAMES L.) OR-E
TAGS: EFIN, EEWT
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NATIONAL SECURITY COUNCIL

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April 27, 1982

MEMORANDUM FOR WILLIAM P. CLARK

FROM: RICHARD CHILDRESS

SUBJECT: Japanese Request to Approve U.S. Export Licenses for the Sakhalin LNG Project

Norm Bailey has forwarded you a paper on above subject which asserts that denial of Japan's request for export licenses needed for Sakhalin "would probably provide us with important leverage and result in relatively limited collateral damage to our relationship with Japan." It also questions SODECO and Japan's claims that failure to obtain the U.S. licenses would mean the inability to commence 1982 exploratory efforts and result in Soviet abrogation of the 1975 agreement with Japan.

Since our own estimates indicate a potential loss to Japan of $60-80 billion plus up to $500 million in front end capital should the licenses not be approved, it follows that potential collateral damage to our relationship is hardly limited.

I attended the meeting on this subject in Norm's office. We agreed that the May 1 date may be soft, but we agreed to confirm it through intelligence sources as well as the other information asserted by private sector sources. They are yet to be proven.

The paper lays out one side of the question (3-1/2 pages) while devoting a paragraph to the Japanese position -- hardly a non-advocacy memorandum.

If we cannot corroborate the private sector assertions rapidly we need to grant the licenses in May. As far as quids are concerned, four years in Washington has convinced me that we will be unable to bureaucratically agree upon, much less implement the complex quids put forward. The most we could hope for would be a demarche when we granted the licenses making clear the special nature of this exemption to an ally and linking it in a general way to trade concessions. Direct quid arrangement and proposals do not work in Japanese society.

I strongly urge that we move expeditiously to approve the licensing, if the private sector information on timing cannot be confirmed this week.

The consequences to our bilateral relationship with Japan of being wrong are much more severe than indicated in Norm's memo.

The concurrence line should have read "Childress has severe heartburn with this, as does Gregg" instead of "Don Gregg is out of the country."

cc: Don Gregg/Norm Bailey

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Review on 4/27/88

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UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

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APR 27 1982

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Macro Summit (Issue)

MEMORANDUM FOR Lionel H. Olmer
Under Secretary for
International Trade

FROM: W. H. Morris, Jr. WHM
Assistant Secretary for
Trade Development

Prepared by: Robert Y. Lee - ext. 377-3277

SUBJECT: Updating The Export Credit Negotiations

As the May 4-7 export credit negotiation approaches, our latest soundings indicate trouble in reducing credit subsidization. Resistance to any change is increasing; and the East-West issue may force the USG to accept less than its full objectives. A reversion to unrestrained credit competition is a distinct but outside possibility. The purpose of this memorandum is to outline our negotiating objectives, indicate the position of key players, and suggest possible outcomes.

USG Objectives

The USG wants:

-- First and foremost, to reclassify the USSR from the intermediate to the rich country category.

-- To increase export credit interest rates.

-- To have recognized the right of the low interest rate countries such as Japan to change market interest rates (with a moderate surcharge) and to have such rates vary as market rates change.

-- To restrain or bar export credits among rich countries and thus avoid possible countervailing duty actions provoked by subsidized foreign credits in the U.S. market.

-- To make significant progress on aircraft, nuclear power, and mixed credits.

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From an export credit standpoint, the specific USG objective is an effective two percent average increase in export credit rates. This could consist of a combination of direct interest rate increase plus a general reclassification of countries so that major credit recipients would be elevated to a higher interest rate category. The latter would be worth about a one percent increase, depending on how many such countries are moved. The combination package is the USG objective given that a direct increase of a full two percent is probably unattainable this time around.

State of Play

Reports received during the past 2-3 weeks indicate that the position of key governments is drawing farther apart and hardening:

-- The French reportedly are against any direct rate increase and favor little or no country reclassification. Their recent economic problems may motivate a shoring-up of their export position through credit subsidization.

-- The British oppose any widening of the gap between the interest rates they and the Japanese charge. The British paranoia of Japanese export prowess appears to be the main reason for this position.

-- The Japanese want a reduction in their current special 9.25 percent rate to reflect declining market rates in the yen. Maintaining the current 9.25 rate, much less an increase, is politically unacceptable. But reducing the Japanese rate while raising rates for other countries incompatiable with the British position.

-- The USG is insisting on elevating the USSR to the category of rich countries. So strong is this policy objective that others may have to be sacrificed. Hence, the negotiations may be driven by a political rather than commercial engine.

These country positions are important simply because the export credit guidelines cannot be agreed to in piecemeal fashion; there must be OECD unanimity, or nearly so. (E.g., the four neutrals blocked Soviet reclassification in March.) Furthermore, the French and British can each set the outside limits of EC action under the unanimity rules of the Treaty of Rome.

Possible Outcome

-- No negotiating progress is made. In that case some countries might withdraw from the Arrangement because they can no longer tolorate the unfairness of the guidelines. They might derogate massively on repayment term or cut interest rates. If the USG and/or Japan did this the Arrangement might collapse altogether. It is fair to point out that the USG has considered this option in previous moments of frustration, but decided that an imperfect Arrangement was better than none at all.

-- Less than half a loaf. The USSR would be reclassified, but few other countries; and interest rates would be raised minimally (less than 1/2 percent) or not at all. A distinct possibility is that interest rates would be raised only for rich countries but not for others, thus minimizing the effects of reform in the most active LDC markets.

-- Half a loaf. Many countries would be reclassified, without an interest rate increase.

-- The whole loaf. The USG substantially attains its reclassiifcation and interest rate objectives. This outcome seems unlikely, however.

Sectoral Negotiations

The aircraft and nuclear power negotiations are still in their early stages, and no definite results are expected at this time. While separate from the Arrangement, they are related: success in the Arrangement will not necessarily speed them along, but failure might induce a collapse of these negotiations as well.

Near-term Actions

Our first hard news of the EC position will be on April 26, after the Council of Ministers approves a negotiating mandate. That will give us the general parameters of what the EC can agree to. The purpose of this memorandum is in part to give you the context within which that news should be interpreted.

Commerce will of course be represented on the U.S. Delegation. We have arranged for periodic telephonic reporting to Don Earnshaw as necessary.

Immediately following the negotiations will be the OECD Ministerials on May 10-11, which the Secretary will attend. We have arranged for a telephonic briefing to Commerce staff preparing for their trip. If necessary, the Commerce representative can meet with members of the Secretary's party on their arrival in Paris Saturday, May 8.

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MEMORANDUM

#2864 Add-on

NATIONAL SECURITY COUNCIL

File France Summit (issues)

~~CONFIDENTIAL~~

April 28, 1982

INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: HENRY R. NAU HRN

SUBJECT: Suzuki Letter on Exchange Markets

I was with Sprinkel over the weekend when he learned of the Suzuki letter to the President concerning exchange rate intervention. He notified Regan immediately and hence the note to you from Regan.

Several aspects are important:

-- Suzuki's letter is clearly his initiative, not necessarily having the full support of all agencies. The Japanese delegation at the Paris Summit meeting this weekend opposed the idea of exchange market intervention.

-- The Japanese yen is undervalued in part because Japanese capital markets are not fully open. The Japanese have capital controls on the outflow of yen, which keeps the yen up (as U.S. capital controls sustained an undervalued dollar in the late 1960s), but also ration access to their credit markets by foreign companies, which holds the yen down. The net effect of these policies is uncertain, but we would probably be right to ask the Japanese to liberalize fully their capital markets before we agree to intervene to raise the yen rate.

-- As I reported to you separately, the intervention issue is now a key one for the Summit. It has real risks and opportunities for us. If we agree too easily on intervention to please the allies, we risk absorbing the costs of inflation in weak currency countries, thereby encouraging further inflationary policies abroad. If we can extract meaningful commitments from weak currency countries to reduce inflation (e.g. in France) or to open capital markets (e.g. in Japan), we can consummate a Summit agreement that will have historic import.

cc: N.Bailey
D.Gregg
D.Childress

~~CONFIDENTIAL~~
(Review 4/28/88)

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MEMORANDUM

2864

NATIONAL SECURITY COUNCIL

April 26, 1982

CONFIDENTIAL

INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY NB

SUBJECT: Suzuki Letter on Exchange Markets

In accordance with the attached memorandum to you (Tab I) from Secretary of the Treasury Regan, Prime Minister Suzuki will apparently be giving the Vice President a letter suggesting increased intervention in the financial markets in order to smooth fluctuations. This is contrary to current Administration policy and as he puts it is probably an attempt by the Japanese to turn attention away from their closed capital markets. He suggests that no action is required at this time, but I will closely monitor the situation when the Vice President returns.

Attachment
Tab I Memo from Secretary Regan

cc: ~~Don Gregg~~
Henry Nau

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Review April 26, 1988

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NLRR M07-081 #51141
BY CN NARA DATE 4/23/10

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24 APR 1982

45

2864

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

April 23, 1982

MEMORANDUM FOR THE HONORABLE
WILLIAM P. CLARK
ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS

Subject: Suzuki Letter on Exchange Markets

Beryl Sprinkel called from Paris to alert us that Prime Minister Suzuki will be giving the Vice President a letter suggesting that Finance Ministries get together at an "expert" level to study exchange market intervention "to correct unjustified currency fluctuations." This approach, of course, contrasts sharply with our effort to get better coordination of long-term policies, and in effect turns our initiative upside down by focusing on symptoms rather than underlying problems. They say "this could be an important topic at the Summit in playing a role in solving trade problems."

This proposal is probably an attempt by the Japanese to turn attention away from their closed markets. I don't think any action is needed at this point. When we receive the exact proposal, we will want to consider carefully how to respond in a way that gets this back on the track of underlying policies and performance rather than exchange market intervention.

I would appreciate seeing the letter as soon as it comes in.

Donald T. Regan

Donald T. Regan

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RECEIVED 24 APR 82 11

TO CLARK

FROM REGAN, D

DOCDATE 23 APR 82

KEYWORDS: JAPAN INTL TRADE SUZUKI, ZENKO

CM

SUBJECT: COMMENTS ON SUZUKI LTR RE EXCHANGE MARKETS

ACTION: PREPARE MEMO FOR CLARK DUE: 26 APR 82 STATUS S FILES

FOR ACTION	FOR CONCURRENCE		FOR INFO
GREGG	CHILDRESS	NAU	MCGAFFIGAN
	BAILEY		WHEELER

COMMENTS

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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

April 23, 1982

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Donald T. Regan

Donald T. Regan

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Department of the Treasury

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The White House

FROM:
The Honorable
Donald T. Regan
Secretary of the Treasury
Room 3418
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