Collection:
Robinson, Roger W: Files
Folder Title:
SIG-IEP Meetings 01/12/1983-01/26/1983
Box:
RAC Box 6

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name Robinson, Roger: Files

Withdrawer SRN 3/7/2012

File Folder SIG-IEP MEETINGS: 01/12/1983-01/26/1983

FOIA F01-052/3 GRYGOWSKI

Box Number 6

48

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
132862	MINUTES	SIG-IEP MEETING	3	1/12/1983	B1
132863	DRAFT MINUTES	SIG-IEP MEETING (SIMILAR TEXT TO 132862)	2	1/12/1983	B1
132864	PAPER	RE: FOREIGN-GOVERNMENT CONTROLLED INVESTMENTS	5	ND	B1
132865	PAPER	RE: BUTTER SWAP	2	ND	B1
132866	MINUTES	DUPLICATE OF 132862	3	1/12/1983	B1
132867	DRAFT MINUTES	SIG-IEP MEETING	3	1/20/1983	B1
132868	MINUTES	SIG-IEP MEETING (SIMILAR TEXT TO 132867)	3	1/20/1983	B1
132869	MINUTES	DUPLICATE OF 132868	3	1/20/1983	B1
132870	MINUTES	SIG-IEP MEETING	3	1/27/1983	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]

C. Closed in accordance with restrictions contained in donor's deed of gift.

WITHDRAWAL SHEET
Ronald Reagan Library

Collection Name	*Withdrawer*
Robinson, Roger: Files	SRN 3/7/2012
File Folder	*FOIA*
SIG-IEP MEETINGS: 01/12/1983-01/26/1983	F01-052/3 GRYGOWSKI
Box Number	
6	48

ID	*Document Type* *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
132862	MINUTES SIG-IEP MEETING	3	1/12/1983	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]

C. Closed in accordance with restrictions contained in donor's deed of gift.

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name
Robinson, Roger: Files

Withdrawer
SRN 3/7/2012

File Folder
SIG-IEP MEETINGS: 01/12/1983-01/26/1983

FOIA
F01-052/3
GRYGOWSKI

Box Number
6

48

ID	*Document Type* / *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
132863	DRAFT MINUTES SIG-IEP MEETING (SIMILAR TEXT TO 132862)	2	1/12/1983	B1

6

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

January 17, 1983

SIG-IEP agendas

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF THE INTERIOR
THE SECRETARY OF ENERGY
THE ATTORNEY GENERAL
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
UNITED STATES TRADE REPRESENTATIVE
DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT Senior Interdepartmental Group on International Economic Policy (SIG-IEP)

A meeting of the SIG-IEP is scheduled for Thursday, January 20, at 11:00 a.m., in the Roosevelt Room. The agenda is as follows:

1. Status of Kuwait under Mineral Lands Leasing Act;

2. Foreign Government-Controlled Investment in the United States;

3. LDC Debt Issues: Brazil, Mexico and Yugoslavia; and

4. Report on G-10 Meeting.

Attendance will be limited to principal, plus one.

DTR

Donald T. Regan

0477

7

OFFICE OF THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

January 18, 1983

UNCLASSIFIED
(With ~~Confidential~~ Attachments)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF THE INTERIOR
THE SECRETARY OF ENERGY
THE ATTORNEY GENERAL
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
UNITED STATES TRADE REPRESENTATIVE
DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT: Senior Interdepartmental Group on International Economic Policy (SIG-IEP)

Attached are discussion papers on the Mineral Lands Leasing Act and Foreign Government-Controlled Investments in the United States for the meeting of the SIG-IEP scheduled for Thursday, January 20, at 11:00 a.m., in the Roosevelt Room. Also attached is a paper on Barter Arrangements which has been added as an agenda item. LDC Debt Issues and the G-10 meeting will be the subjects of oral reports and papers will not be provided on these two items.

The minutes of the January 12 SIG-IEP meeting are attached.

David E. Pickford
David E. Pickford
Executive Secretary

Attachments

UNCLASSIFIED
(With ~~Confidential~~ Attachments)

mn 03/07/2012

January 4, 1983

8

Status of Kuwait Under the Minerals Lands Leasing Act

Issue: Should Kuwait be found non-reciprocal under Section 1 of the MLLA?

Background: 1) In general, the MLLA covers leasable minerals (oil, gas, coal, sulphur, etc.) located on public and acquired lands. It does not cover offshore oil, which is covered by the OCS Lands Act. Offshore oil and gas represent roughly 70% of the total oil and gas produced on Federal lands. The MLLA does not cover oil and gas produced on State, Indian or private lands.

The MLLA limits the right of foreign citizens to own stock of a domestic U.S. corporation holding leases under the MLLA, if that foreign country denies "similar or like privileges to citizens or corporations of their country."

2) Under the DOI standard of review, foreign citizens may own stock in a domestic corporation owning an interest in U.S. resources if a) U.S. citizens are not precluded or unreasonably restricted from participating in the foreign country's mineral resources because of the U.S. citizen's stock ownership, or if b) stock ownership is prohibited in that foreign country, does the foreign country permit other opportunities for investment or participation in mineral resources on public lands, and if c) that foreign country does restrict investment in mineral resources, is there discrimination against U.S. citizens or corporations.

3) The Constitution of Kuwait decrees that all natural resources are the property of the State. No Kuwaiti citizen owns mineral rights, and all exploration and production for oil is carried out by the Kuwait Petroleum Company (KPC). Foreign participation in commercial activities is permitted by law, through partnerships and joint stock companies provided that 51% of the stock is Kuwaiti owned. Joint ventures are also permitted. Since 1980, all oil and gas activities have been consolidated in KPC, including the acquisition of foreign concessions previously granted to foreign companies, with the exception of a jointly administered Kuwaiti-Saudi concession. There are no companies with Kuwaiti stockholders currently involved in oil and gas activities with KPC. Neither Kuwaiti nor U.S. citizens hold mineral interests, and thus there appears to be no evidence of discrimination against U.S. citizens.

Analysis and Decision: A concession to explore for and develop minerals may be issued by the Government of Kuwait. Furthermore, U.S. citizens may own up to 49% of the stock of a Kuwaiti Corporation, and such corporation could be granted a concession or participate in ventures with KPC. All resource activities in Kuwait are conducted by KPC, and no Kuwaiti citizens may invest in KPC.

In interpreting the MLLA, the Interior Department has focused on the effect of investment by U.S. citizens in foreign corporations. Kuwaiti law does not preclude private or foreign investment, and there is no discrimination against U.S. citizens. Therefore, Kuwait should be found reciprocal under Section 1 of the MLLA.

Comments: 1) DOI received several hundred negative comments on Kuwaiti reciprocity. Most were written on 3 x 5 postcards, postmarked from North Carolina, and were not substantive. Generally, they objected to oil and gas activities on public lands in western North Carolina, particularly by foreigners.

2) In 1982, KPC purchased Santa Fe International for $2.5 billion. At that time, Santa Fe International had a small interest (worth roughly $9 million) in Federal leases. Since that time, they have increased their holdings in Federal leases through the acquisition of a small oil and gas exploration company with Federal and non-Federal leases. Santa Fe has invested much more heavily in offshore leases, with leases valued in excess of $25 million. Santa Fe has expressed an interest in acquiring further leases. If Kuwait were found non-reciprocal, further investment in a depressed industry would be barred, and Santa Fe might be forced to divest itself of all Federal onshore leases.

3) KPC has invested substantial capital above its initial investment in Santa Fe International. Santa Fe has been a leader in developing exploration technology for Alaskan offshore operations, which are capital intensive and require very long term investment.

4) All resources produced in the U.S. can be controlled in emergency situations through the Defense Production Act and other legislation.

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

10

DEC 29 1982

DECISION ON THE STATUS OF KUWAIT UNDER THE MINERAL LEASING ACT OF 1920 (30 U.S.C. § 181 et seq.)

On July 8, 1982, the Department of the Interior requested public comment on the laws, customs and regulations of Kuwait to assist the Department in making a determination on the status of that country under section 1 of the Mineral Leasing Act of 1920, 30 U.S.C. § 181. 47 Fed. Reg. 29720. The comment period was extended by notice published on August 16, 1982. 47 Fed. Reg. 35559. This inquiry will determine the eligibility of citizens of Kuwait to own interests, through stock ownership, stock holding or stock control, in leases and permits issued pursuant to the Mineral Leasing Act of 1920, 30 U.S.C. § 181 et seq. ("the Act"), and the Mineral Leasing Act for Acquired Lands, 30 U.S.C. § 351 et seq. The minerals in question are deposits of oil, gas, coal, sulphur, phosphate, potassium, sodium, oil shale and gilsonite owned by the United States and subject to disposition under the Act as well as oil or gas transportation pipeline rights of way issued under the Act.

I. Section 1 of the Act

Section 1 of the Act authorizes leasing of lands and disposition of identified minerals to citizens of the United States, associations of such citizens, domestic United States corporations and, in certain circumstances, municipalities and other governmental entities. Citizens of foreign countries may invest in leases and permits issued pursuant to the Act only through the stock of domestic United States corporations. Section 1 limits this right of investment in the following manner:

> Citizens of another country, the laws, customs or regulations of which deny similar or like privileges to citizens or corporations of this country, shall not by stock ownership, stock holding, or stock control, own any interest in any lease acquired under the provisions of this Act.

II. Public Comments

In response to the request for public comments, the Department received 391 comments. The vast majority of the commenters did not provide information concerning the laws, customs or regulations of Kuwait. Rather, most were quite brief and expressed general opposition to oil and gas development in certain parts of the country or to any investment in the domestic oil and gas industry by citizens of Kuwait and other "OPEC" nations, or to both. In short, these comments were conclusory and did not provide factual information that would be helpful in analyzing the laws, customs, and regulations of Kuwait. Several commenters argued that since Kuwait has nationalized its oil industry, it obviously denies similar or like privileges to citizens of this country. There commenters were either unaware of or opposed to this Department's long-standing interpretation and application of section 1 of the Act that nationalization does not by itself render a nation non-reciprocal. These comments also were not helpful in providing information to analyze the status of Kuwait. One commenter provided a detailed analysis of section 1 and Kuwait law. This commenter argued that the legislative history and prior administrative interpretations of section 1 of the Act support the proposition that foreign citizens should not be disqualified unless the foreign country in question imposes unreasonable or discriminatory restrictions on opportunities by United States citizens to invest in the mineral resources of the foreign country. It further argued that in 1919 Congress contemplated leaving oil producing countries free to develop their own oil exploitation policies provided they did not discriminate against the United States. The commenter concluded that citizens of Kuwait should not be disqualified under section 1 of the Act. No comments were received from other government agencies.

In addition to the comments, the Department considered the significant volume of information in Departmental files, including information on Kuwait law provided by the Government of Kuwait through the Department of State.

III. Standard of Review

In his memorandum to the Secretary of February 2, 1982, the Associate Solicitor, Energy and Resources, identified three standards under which the laws, customs and regulations of a foreign country are to be analyzed in determining whether laws, customs and regulations of a foreign country deny similar or like privileges to citizens of the United States. These standards resulted from a review of the statutory language, legislative history and Departmental administration of section 1 of the Act beginning in 1920.

12

Under the first standard identified by the Associate Solicitor, the Department must find that the foreign country allows stock participation by United States citizens in corporations which, in turn, are not precluded or unreasonably restricted from participating in the foreign country's mineral resources on its public lands because of the United States citizen's stock ownership. If the foreign country prohibits stock ownership, the Department applies the second standard to determine whether the foreign country allows other opportunities for investment or participation in the mineral resources on its public lands. In the event the foreign country restricts investment or participation in its mineral resources to state-owned entities, the Department must, under the third standard, determine whether discrimination exists against citizens or corporations of the United States.

IV. The Laws, Customs and Regulations of Kuwait

The laws, customs and regulations discussed below are those applicable to exploration and development of mineral resources in Kuwait and to stock ownership, stock holding and stock control in that country by citizens and corporations of the United States.

Laws

The 1962 Constitution of the State of Kuwait.

Article 21 of the Constitution decrees that all natural resources and derivative revenues are the property of the State. Article 152 authorizes the granting of concessions for exploitation of natural resources only "by a law and for a limited period." There is no restriction in the Constitution on the ability of aliens to hold or to invest in such concessions.

Law No. 19 of 1973 concerning the Conservation of Petroleum Resources.

This law authorizes the Government of Kuwait to issue regulations governing all aspects of petroleum exploration and development.

Decree Law No. 6 of 1980 establishing the Kuwait Petroleum Corporation.

This law established the Kuwait Petroleum Corporation (KPC), which is wholly owned by the Government of Kuwait. KPC, through a subsidiary, owns the sole outstanding concession for the exploration and development of hydrocarbon substances found in Kuwait, except for one concession in the offshore area jointly administered by Kuwait and Saudi Arabia. KPC is chartered to engage in all phases of the hydrocarbon industry, including exploration, development and transportation (Article 3). KPC is authorized in carrying out these purposes to participate with other companies and to establish companies in partnership with others (Article 5). Decree Law No. 6 assigned the Government-owned shares of various companies involved in hydrocarbon activities in Kuwait to KPC (Article 8).

Law No. 15 of 1960 (of Commercial Companies)

This law allows foreign participation in commercial activities within the country of Kuwait through partnerships and joint stock companies, provided that 51% of the capital holdings is owned by Kuwaiti citizens. This law also authorizes the formation of joint ventures with no limitation on citizenship. This law is the only expression of Kuwait policy with regard to foreign investment brought to the attention of the Department. The Department understands that outside the scope of Law No. 15, a foreign corporation may directly engage in commercial activities in Kuwait, although in some circumstances the foreign corporation must employ a Kuwaiti agent.

Customs and Regulations

The prevailing custom in Kuwait has been to consolidate all oil and gas activity under the ownership of the Government and, since 1980, in the Kuwait Petroleum Corporation (KPC). This consolidation included the acquisition by the Government of concession rights previously granted to foreign companies and their subsequent assignment to KPC. One foreign-owned company continues to operate offshore in the area under the joint administration of Kuwait and Saudi Arabia. KPC has not exercised its authority to engage in joint operations with foreign companies nor has the Government of Kuwait issued any new concessions to foreign companies. Similarly, no companies with Kuwaiti stockholders are currently involved in oil and gas activities with KPC or through new concessions. However, there is no evidence that any custom or regulation discriminates against investment by United States citizens.

V. Analysis

From our understanding of the laws, customs and regulations of Kuwait, a concession to explore for and develop mineral resources may be issued by the Government of Kuwait. These concessions would be issued to an entity organized under Law No. 15 or to foreign entities. In some instances, foreign entities are required to conduct business in Kuwait through

Kuwaiti agents. Other than in the offshore joint administration area, the only entity currently authorized to conduct oil and gas activities is the Kuwait Petroleum Corporation (KPC), which is a state-owned company. KPC is authorized by law to join with others to conduct these activities, presumably with or through an entity organized under Law No. 15 or with a foreign entity authorized to do business directly in Kuwait. At present, KPC has not engaged in any joint participation projects.

Under Law No. 15, United States citizens may own up to 49% of the stock in a Kuwaiti corporation. Kuwaiti law contains no limitation or restriction on the activities of a corporation which has stockholders who are citizens of the United States. Such corporations may, if the opportunity is presented, participate independently or with the Kuwait Petroleum Corporation (KPC) in any phase of the hydrocarbon industry. Similarly, United States citizens may engage in joint ventures independently or with KPC, if the opportunity is presented. The 49% limitation is not an unduly harsh or restrictive limitation on stock or partnership capital ownership. While this requirement may alter the opportunity for economic return to the United States stockholder, and thus be a factor in the investment decision, it does not render the stock participation illusory or meaningless. This limitation is similar to the Canadian law which the Secretary found does not deny similar or like privileges under section 1 of the Act in his decision of February 2, 1982, concerning the reciprocity status of Canada.

Finally, no discrimination exists under the law of Kuwait against citizens of the United States. KPC is wholly-owned by the Government of Kuwait. No Kuwaiti citizens may invest in KPC because the law of Kuwait does not allow such investment. Moreover, we have no evidence that KPC has engaged in any joint participation activities with companies owned by Kuwaiti citizens to the exclusion of companies owned in whole or in part by citizens of the United States. Thus, the laws, customs and regulations of Kuwait are applicable to all private investment in mineral resources, whether that investment is by citizens of Kuwait, by citizens of the United States, or by citizens of any other country.

The Department received no comments or information concerning the laws, customs or regulations of Kuwait with regard to minerals other than oil and gas which differ from those applicable to oil and gas.

15

The restriction on foreign ownership of interests in federal onshore mineral leases and permits had two purposes. First, it was designed to avoid foreign retaliation against, and to discourage foreign discrimination against, investments in minerals by citizens and corporations of the United States. H.R. Rep. No. 398, 66th Cong., 1st Sess., p. 11 (1919). Second, it was intended to prevent adverse impacts from uncontrolled and unchecked exportation of domestic mineral resources. Id. The Act itself was intended to "promote the mining of coal, phosphate, oil, oil shale, gas, and sodium on the public domain." 41 Stat. 437. In section 32 of the Act, 30 U.S.C. § 189, Congress empowered the Secretary "to prescribe necessary and proper rules and regulations and to do any and all things necessary to carry out and accomplish the purposes of this Act."

From the earliest time, the Department has focused on the issue of the effect of investment by United States citizens in foreign corporations on the ability of that corporation to participate in the mineral resources of the foreign country. E.g., letter from Secretary of the Interior to Secretary of State dated October 19, 1920. This emphasis on discrimination, which originally arose in the Congressional debate on section 1 (discussion among Congressmen Snell, Sinnott and Evans, 58 Cong. Rec. 7528-7529 (1919)), was ratified in a letter from the Deputy Solicitor to the Legal Advisor for Economic and Business Affairs, Department of State, dated August 23, 1974. In this letter, the Deputy Solicitor emphasized that the citizenship of an individual or corporation was irrelevant to investment in the coal resources of Great Britain. After finding that the British government had nationalized the British coal industry and that no private participation, British or foreign, was allowed, the Deputy Solicitor concluded that this did not constitute the discrimination required to disqualify investment by British citizens under section 1 of the Act. The laws, customs, and regulations of Kuwait simply do not prohibit private (and foreign, on an equal basis) investment and participation in mineral resources development, unlike the assumption made in the 1974 letter regarding the law of Great Britain.

VII. Decision

The above analysis demonstrates that the laws, customs and regulations of Kuwait do not discriminate against citizens of the United States. No evidence exists that a company has

16

been denied participation in mineral resources of Kuwait since the adoption of Decree Law No. 6 because citizens of the United States held an interest.

Based on the facts described above, the laws, customs and regulations of Kuwait do not deny similar or like privileges to citizens or corporations of the United States within the meaning of section 1 of the Mineral Leasing Act of 1920, 30 U.S.C. § 181. Therefore citizens and corporations of Kuwait may, through stock ownership, stock holding or stock control in corporations of the United States, own interests in federal mineral leases and permits subject to section 1 of the Act.

Date: 12/22/82

Assistant Secretary--Land and Water Resources

I Concur:

William H Coldiron
SOLICITOR
12/29/82

WITHDRAWAL SHEET
Ronald Reagan Library

Collection Name	*Withdrawer*
Robinson, Roger: Files	SRN 3/7/2012
File Folder	*FOIA*
SIG-IEP MEETINGS: 01/12/1983-01/26/1983	F01-052/3 GRYGOWSKI
Box Number	
6	48

ID	*Document Type* *Document Description*	*No of pages*	*Doc Date*	*Restric-tions*
132864	PAPER RE: FOREIGN-GOVERNMENT CONTROLLED INVESTMENTS	5	ND	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]

C. Closed in accordance with restrictions contained in donor's deed of gift.

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name	*Withdrawer*
Robinson, Roger: Files	SRN 3/7/2012
File Folder	*FOIA*
SIG-IEP MEETINGS: 01/12/1983-01/26/1983	F01-052/3 GRYGOWSKI
Box Number	
6	48

ID	*Document Type* / *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
132865	PAPER RE: BUTTER SWAP	2	ND	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]

C. Closed in accordance with restrictions contained in donor's deed of gift.

EXECUTIVE SUMMARY

The USSR will import up to 225,000 MT of butter in CY1983. Barter of CCC-owned butter for USSR-owned strategic material could be linked to a Soviet agreement to import as much as an additional 6 million tons of U.S. grain (over current estimated imports of 8 million tons of U.S. grain). Two options to implement this butter for strategic materials arrangement are available: (1) a Government-to-government barter arrangement, or (2) use of U.S. barter contractors. Details and implications of this proposal are spelled out in the attached paper.

BARTER ARRANGEMENT WITH THE USSR

BACKGROUND

It is estimated that during CY 1983, the USSR will import up to 225,000 MT of butter. The major suppliers of butter to the USSR have been the EC, Finland, Sweden and New Zealand. The USSR is currently interested in acquiring up to 100,000 MT, and it is expected that the EC will make a strong effort to conclude an arrangement for this amount within the next few weeks. A barter arrangement involving the exchange of CCC-owned butter and USSR strategic materials for the national strategic stockpile would probably place the U.S. in competition with the EC.

PROPOSED STRATEGY FOR LEVERAGING GRAIN TRADE

The barter of CCC-owned butter to the USSR for strategic materials would be of special importance to them and could be linked with a Soviet agreement to purchase a larger quantity of U.S. grain. Such a commitment would probably not be entered into in writing, but would need to be discussed and clearly understood. In the current October/September year, the Soviets are currently projected to import a total of 38 million tons of grain from all origins, including 8 million from the U.S. In agreeing to barter U.S. butter to them, we could ask that this be increased to perhaps as much as 14 MMT.

AUTHORITY

CCC has broad legal authority to barter CCC-owned butter for strategic materials and to hold title to the strategic material until transferred to the stockpile (See attached OGC memo for detailed opinion).

NATIONAL STRATEGIC STOCKPILE

The USSR produces the following strategic materials which are deficit to the stockpile (See attach table for USSR production, exports and imports).

STRATEGIC MATERIAL	STOCKPILE GOAL	STOCKPILE SHORTFALL
COBOLT	85,400,000 Lbs.	41,607,769 Lbs.
NICKEL	200,000 ST	167,790 ST
TITANIUM SPONGE	195,000 SDT	195,000 SDT
PALLADIUM	3,000,000 Tr Oz	1,747,212 Tr Oz
PLATINUM	1,310,000 Tr Oz	870,402 Tr Oz
IRIDIUM	98,000 Tr Oz	81,010 Tr Oz

The materials must meet GSA specifications. GSA would provide a stockpile site and manage the inventory.

From a transportation cost standpoint, it is to CCC's advantage to negotiate for cobolt, palladium and platinum. (See Cargo Preference section).

METHOD OF OPERATION

OPTION 1. GOVERNMENT TO GOVERNMENT BARTER ARRANGEMENT.

-- CCC, in cooperation with GSA, would enter into an agreement with the USSR covering the kind(s) quantity, specification and delivery of the strategic materials.

-- CCC would negotiate the agreement with the USSR covering the quantity, quality and delivery of the butter.

-- CCC would delivery the butter to the USSR FAS U.S. port. Ocean transport to be furnished by USSR. (Cargo preference not applicable)

-- The USSR would deliver the strategic material to CCC C&F U.S. port. Agreement would provide that 50 percent of the material would be shipped on U.S. flag vessels to comply with Cargo Preference Act.

-- CCC would accept title to the materials at U.S. ports and would pay domestic transporation costs of the strategic material from U.S. port to the GSA storage site.

-- GSA would pay the cost of placing the material in the storage site and all subsequent costs of maintaining the inventory.

OPTION 2. USE OF U.S. BARTER CONTRACTORS

-- CCC would issue invitations for U.S. bidder to enter into a barter arrangement with the USSR under which the contractor would deliver CCC-owned butter (from CCC-stocks and newly purchased unsalted butter of 82 percent milkfat) to the USSR and receive for the account of CCC, strategic materials from the USSR.

-- CCC would accept offers on the basis of the most viable proposed arrangement and proposed barter exchange.

-- CCC and GSA would establish a range for the value of the material (delivered USSR port) and CCC would establish a range for the value of the butter delivered FAS U.S. ports. The successful barter contractor would negotiate within these ranges and could only deviate with the approval of CCC and GSA.

-- The barter contractor would furnish a performance bond in favor of CCC for an agreed upon amount. CCC would draw against the performance bond in the event the barter contractor failed to carry out its responsibilities under the agreement with CCC.

-- CCC would deliver the butter to the barter contractor FAS U.S. port. Ocean transportation to be furnished by the USSR (Cargo preference not applicable).

- The barter contractor would deliver the strategic material to CCC basis C&F U.S. ports. The agreement between CCC and the barter contractor would provide that the barter contractor pay the cost of ocean transportation and related charges, and that 50 percent of the material be shipped on U.S. flag vessels to comply with the Cargo Preference Act.

- CCC would accept title to the materials at U.S. ports and would pay domestic transportation costs of the materials from U.S. ports to the GSA storage site.

- GSA would pay the cost of placing the material in the storage site and all subsequent costs of maintaining the inventory.

- The barter contractor would receive a quantity of the material at U.S. ports as payment for the barter exchange fee, ocean transportation costs and other related costs approved by CCC. The quantity of the material would be based on the barter exchange fee.

Comments

A barter arrangement would have the following advantages:

- Reduce the inventory of CCC-owned butter and the amount which would otherwise be purchased by CCC under its price support program, thereby reducing program costs.

- The displacement of EC exports of butter to the USSR.

- CCC would swap a pershiable commodity for a strategic material needed for the national stockpile which would have a longer storage life. This would probably be looked upon as a favorable arrangement by the majority of the U.S. public.

- Positive reaction from most dairy farmers and some from U.S. public.

- Would benefit the U.S. in general by the acquisition of materials needed for the national stockpile.

- CCC could later receive reimbursement from GSA for some of its program outlay.

-- Purchase unsalted, 82 percent milkfat butter. Projections are that CCC will purchase about 390 million pounds (172,365 MT) of butter in FY83. One hundred thousand metric tons would represent 56 percent of CCC's projected purchases. CCC buys 80 percent of its butter during the period January-June.

Other Considerations

See the attached statement prepared by ASCS of its concern regarding the delivery of unsalted, 82 percent milkfat butter.

RECOMMENDATION ON QUALITY OF BUTTER.

Use a combination of all options to provide the quantity of butter needed. CCC should purchase unsalted 82 percent milkfat butter for delivery January thru June and during the last part of the year should swap CCC-owned butter for unsalted 82 percent milkfat butter. This would prevent heavy purchases by CCC during the off-flush period. The CCC-owned butter would be diverted into the domestic market and would prevent inflated prices during peak use of high milkfat products such as ice cream.

It is believed that by using a combination of the options, CCC could deliver up to 100,000 MT. If only a direct purchase is used, consideration should be given to a maximum of 50,000 MT per year.

Reimbursement to CCC

Currently, GSA does not have funds which could be used to reimburse CCC for the market price of the strategic materials. However, CCC has authority to hold title to the materials. Options available to CCC include:

-- Provide support to GSA to obtain an budget sufficient to reimburse CCC for the materials.

-- Support legislation which would authorize CCC on a one-time arrangement to transfer title of the materials acquired under this arrangement to GSA without reimbursement.

-- Support legislation which would authorize the GSA to sell the materials for the account of CCC.

CARGO PREFERENCE

The Cargo Preference Act would apply to the shipment of the strategic material since the material is being acquired under a government contract.

The Cargo Preference Act would not apply to the shipment of the butter since the value of the butter would be negotiated at world market prices and delivered FAS U.S. ports and the arrangement would not involve any credit arrangements.

PRIOR PROPOSALS

Attached are letters from Philbro-Salomon Inc. and Cometals, Inc. regarding a barter arrangement with the USSR.

PRICES

Butter

World butter price (fresh, unsalted, 82 percent butterfat), f.o.b. Europe.....................$2,025/MT ($.92/lb.)

Estimated ocean freight, U.S. east coast to Black Sea port.................................$150/MT ($.07/lb.)1/

F.o.b. U.S. east coast port..................$1,875/MT ($.85/lb.)

Stowage Charges..$33.29/MT ($1.51/cwt)

F.e.s. U.S. east coast port..................$1,840/MT ($.84/lb.)

Strategic Materials

GSA material on prices is attached.

QUALITY OF BUTTER

The inventory of CCC-owned butter is salted with 80 percent milkfat. The USSR is interested in butter that is unsalted and 82 percent milkfat. (See attached detailed study by ASCS).

Options available

-- Negotiate with the USSR to accept butter directly from CCC inventory. USSR preference and usual imports of butter are of unsalted, 82 percent milkfat. The U.S. may be able to negotiated for small quantities of CCC-owned butter.

-- Swap CCC-owned butter with manufacturers for unsalted, 82 percent milkfat butter. This could prevent major price swings in low production months since the CCC-owned butter would go into the domestic market.

1/ Ocean freight rates are estimated. A published conference rate for refrigerated butter is not available according to the Ocean Transportation Division, GSM.

WITHDRAWAL SHEET
Ronald Reagan Library

Collection Name
Robinson, Roger: Files

Withdrawer
SRN 3/7/2012

File Folder
SIG-IEP MEETINGS: 01/12/1983-01/26/1983

FOIA
F01-052/3
GRYGOWSKI

Box Number
6

48

ID	*Document Type* / *Document Description*	*No of pages*	*Doc Date*	*Restric-tions*
132866	MINUTES DUPLICATE OF 132862	3	1/12/1983	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]

C. Closed in accordance with restrictions contained in donor's deed of gift.

WITHDRAWAL SHEET
Ronald Reagan Library

Collection Name	*Withdrawer*
Robinson, Roger: Files	SRN 3/7/2012
File Folder	*FOIA*
SIG-IEP MEETINGS: 01/12/1983-01/26/1983	F01-052/3 GRYGOWSKI
Box Number	
6	48

ID	*Document Type* *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
132867	DRAFT MINUTES SIG-IEP MEETING	3	1/20/1983	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]

C. Closed in accordance with restrictions contained in donor's deed of gift.

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name	*Withdrawer*
Robinson, Roger: Files	SRN 3/7/2012
File Folder	*FOIA*
SIG-IEP MEETINGS: 01/12/1983-01/26/1983	F01-052/3 GRYGOWSKI
Box Number	
6	48

ID	*Document Type* *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
132868	MINUTES SIG-IEP MEETING (SIMILAR TEXT TO 132867)	3	1/20/1983	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]

C. Closed in accordance with restrictions contained in donor's deed of gift.

WITHDRAWAL SHEET
Ronald Reagan Library

Collection Name
Robinson, Roger: Files

Withdrawer
SRN 3/7/2012

File Folder
SIG-IEP MEETINGS: 01/12/1983-01/26/1983

FOIA
F01-052/3
GRYGOWSKI

Box Number
6

48

ID	*Document Type* / *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
132869	MINUTES DUPLICATE OF 132868	3	1/20/1983	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]

C. Closed in accordance with restrictions contained in donor's deed of gift.

Bailey

42

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

January 25, 1983

SIG-IEP agenda

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF THE INTERIOR
THE SECRETARY OF ENERGY
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
UNITED STATES TRADE REPRESENTATIVE
DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT Senior Interdepartmental Group on International Economic Policy (SIG-IEP)

A meeting of the SIG-IEP is scheduled for Thursday, January 27, at 2:00 p.m., in the Indian Treaty Room (Room 474 Old Executive Office Building).

Agenda items are:

1. Agriculture Issues (butter exports, wheat flour and local-currency butter sales to Egypt and blended credits);
2. Japanese Auto VRA;
3. Alaskan Oil;
4. Economic Summit;
5. Aircraft Sales to Libya; and
6. Coffee Agreement.

Background papers are attached for agenda items 1, 2, and 6. Agenda items 3, 4, and 5 will be subjects of oral reports.

Attendance is limited to principal, plus one.

for Lucille Dickinson
David E. Pickford
Executive Secretary

Attachments

Issue:

The Irish Dairy Board (IDB) has made an informal offer to the CCC to purchase for export to unrestricted destinations 5,000 metric tons of salted bulk butter and 50,000 metric tons of fresh, unsalted bulk butter. The IDB offer further provides that the IDB has the option (to be exercised before April 1, 1983) to purchase an additional 50,000 metric tons of unsalted butter for a total purchase of 105,000 metric tons. The IDB requires that the age of the salted butter be not more than 12 months at time of shipment and the unsalted butter not more than 90 days. It is understood that most if not all of the 105,000 metric tons of butter would go to the Soviet Union. Restrictions on export destinations would not be acceptable to the IDB.

Pros

The IDB proposal would:

-- return to the U.S. Treasury from $86 to $180 million (assuming we can negotiate a price of about $1,720 per metric ton or 78¢ per pound) and save American taxpayers $6 to $12 million in interest and storage charges;

-- reduce current CCC uncommitted stocks of butter by 60 percent;

-- blunt criticism from New Zealand since they have told us informally several times to move our butter into the USSR if we have to move it, since this would minimize the impact on regular world butter trade;

-- blunt criticism from the European Community since the Irish are members of the EC and are regular participants in world butter trade;

-- receive popular support from the agricultural community and farm state legislators and would facilitate passage of legislation needed to deal with the domestic dairy problem.

Cons

-- private U.S. traders will object that they are not participants in this business and will argue that the sale price (whatever it is) is too low;

-- U.S. consumers may object to selling butter for export at prices below those they pay at the supermarket;

-- may be a strong negative reaction since it will be clear that the butter will go to the USSR.

Other Options

1. Sell as much as 100,000 MT on an open-bid basis to the U.S. trade for export with no restrictons on destination (@ $1,600-1,750 F.A.S.)

Pros

-- Recovery to CCC budget outlay of $160-175 million.

-- Reduction of CCC storage and interest costs of $12-13 million.

-- Positive reaction from the agricultural community and from farm state legislators.

-- Positive reaction from private U.S. trade.

Cons

-- Would result in decrease in world market prices with negative impact on New Zealand and the EC.

-- Negative reaction from U.S. consumers who may object to exporting butter at prices below those they pay at the supermarket.

2. Barter arrangement with the USSR of butter for needed strategic materials (100,000 MT @ $1,500-1,600)

Pros

-- Eventual potential recovery to CCC budgetary outlay of $150-160 million.

-- Probable CCC storage and interest cost reduction of $11.5-12 million

-- Minimal negative reaction from New Zealand since they have informed us informally that if we move butter onto the world market moving it to the USSR would be the least disruptive.

-- Positive reaction from most dairy farmers, farm state legislators and some U.S. public.

-- Would benefit the United States in general by the acquisition of materials needed for the strategic stockpile.

Cons

-- Foreign policy considerations?

-- Some negative public reaction since barter would be based on world price levels which for butter are significantly below U.S. prices.

-- Negative reaction from U.S. traders not able to participate in this business, depending on procedure used.

3. Export up to 100,000 tons through the New Zealand Dairy Board (NZDB) with destinations restricted, i.e., not permitted to the USSR.

The New Zealand Dairy Board has informally indicated that they would be willing to purchase 50,000 tons of CCC butter for export at a negotiated price on terms basically the same as those in the 1981 NZDB-CCC butter agreement. With destinations restricted we could expect to get a lower price, probably in the neighborhood of $1,450-1,500/MT. NZDB would not be willing to do this without consultations between the United States and the EC to get EC concurrence.

Pros

-- Recovery to CCC budgetary outlay of $70-75 million.

-- Probable CCC storage and interest cost reduction of $5 to $6 million.

-- Minimal impact on world prices as NZDB would act in its own best interests to protect world prices.

-- Popular support from the agricultural community and farm state legislators.

Cons

-- Could probably get a better price on an unrestricted, competitive bid basis from private traders.

-- Private U.S. traders will object that they are not participants in this trade and will argue that the sale price (whatever it is) is too low.

-- U.S. consumers may object the selling butter for export at prices below those they pay at the supermarket.

-- May be disruptive in markets which the EC feels are their traditional markets.

Recommendation

That the General Sales Manager, FAS, be given the authority to negotiate a contract for the sale of butter for export to the Irish Dairy Board as soon as possible.

Concurrence:

John R Block

Secretary of Agriculture

Status of Flour Sale to Egypt

On January 17, a Memorandum of Understanding was signed in Cairo between USDA's Commodity Credit Corporation and the Egyptian General Authority for Supply Commodities. The understanding commits Egypt to import 1 million tons of U.S. flour commercially over the next 12 to 14 months, in addition to usual imports under PL-480 and either U.S. or foreign donation programs. If they need any larger amount of commercial flour imports than the 1 mmt over the next year, they must come to the U.S. first. In return, CCC has promised to take "necessary measures" to insure that the 1 mmt of U.S. flour is delivered to Egypt at a fixed, flat price of $155 per metric ton, including freight to Egyptian ports. CCC will also provide guarantees for 3-year, commercial-bank credit on the entire 1 mmt.

To bridge the difference between U.S. domestic-market values and the world price level for wheat flour, the CCC will in effect provide an export subsidy to successful bidders for the Egyptian business. The subsidy will take the form of wheat from CCC stocks. CCC will use a competitive bid process to determine which U.S. mills require the least number of bushels of CCC wheat as compensation for their delivery of flour to Egypt at the agreed $155 price. Deliveries are to begin sometime in March.

This new flour trade will largely displace EC flour in the Egyptian market, which alone accounts for about one-third of the world flour trade and over one-half of EC commercial flour exports. Since world flour markets are limited and mostly already supplied by the EC, there will be little if any alternative outlet for the displaced flour. For the U.S., this new trade will add nearly 50 million bushels to total U.S. wheat/wheat flour exports, about roughly 10,000 additional jobs for the economy, and it will mean about $15 million in savings of CCC outlays for storage and interest, should mean roughly $35 million in additional tax revenue resulting from the increased economic activity.

STATUS OF BLENDED CREDIT

On January 11 President Reagan announced a blended credit program of $250 million direct credit and at least $1 billion in CCC export credit guarantees. USDA has received and analyzed many proposals for use of these funds. A set of 14-16 proposals will be presented to the National Advisory Council Staff Committee at a meeting Thursday, January 27 for interagency advice as the first step in implementing the President's announcement. A number of these agreements should be ready to be announced in early February.

Previously an allocation of $100 million direct credit which was blended with at least $400 million in CCC export credit guarantees was authorized.

In summary the first blended credit package was utilized as follows:

Country	GSM-5 Portion Million $	Total Package Million $	Commodities
Morocco	$ 28	$140	Wheat
Egypt	22	110	Wheat, Veg. Oil, Corn
Yugoslavia	12	60	Cotton
Philippines	8	40	Corn, Soybean Meal, Wheat
Pakistan	5	25	Veg. Oil, Soybean Meal
Brazil	12	60	Wheat
Portugal	1	5	Cotton
Yemen	12	60	Wheat, Rice
	$100	$500	

Commodity Designation - Initial Package

Commodity	Metric Tons		Bales
Wheat	2,420,000		
Vegetable Oil	83,000		
Corn	350,000		
Cotton	43,000	or	197,800
Soybean Meal	102,000		
Rice	15,000		
	3,013,000		197,800

In several cases additional straight GSM-102 commercial credit packages were negotiated which would have increased the 4 to 1 ratio. However, countries asked that these be considered separately so that they would not appear to be negotiating packages greater than 4 to 1 when others were obtaining 4 to 1.

STATUS OF EGYPTIAN SALE OF DAIRY PRODUCTS

48

Last December, FAS received a request from the Egyptian Government to purchase 18,000 metric tons of butteroil, 12,000 metric tons of butter and 12,000 metric tons of cheese from CCC. The dairy products would be made available in Egypt to needy families through private grocers and government food stores at subsidized prices.

Representatives of the Egyptian Embassy have indicated to us that the 30,000 metric tons of butter and butteroil would be additional. The Egyptian Government also requested that CCC accept Egyptian currency as payment for the dairy products. Treasury has agreed to work with us in the use of the currency so that CCC could obtain reimbursement in dollars by other U.S. Government agencies that need Egyptian currency to carry out activities in Egypt.

On January 12, 1982, Acting Secretary Lyng approved our request to negotiate a sale of dairy products to Egypt. While in Egypt last week, Dick Smith and Jim Ross discussed the possibility of a sale of dairy products as follows:

-- FAS offered to sell butter at the middle of the range of $1,625-1,740 MT, butteroil at $2,250-2,400 MT and cheese at $1,400-1,600 MT, all FAS U.S. ports.

-- CCC would accept Egyptian currency payable upon presentation of shipping documents.

-- No restrictions be placed on the use of the currency by the U.S. Government.

-- Delivery within six months after contract signed.

During the meetings, Egyptians made a counteroffer to FAS as follows:

-- Eliminate butteroil.

-- Quantity of butter - 24,000 MT.

-- Price of butter to be $1,500 MT.

-- Quantity of cheese - 12,000 MT.

-- Price of cheese at $1,300 MT.

-- Three years to make payment in Egyptian currency.

-- No interest to apply.

-- Delivery terms F.O.B.

FAS considers the terms of the counteroffer unacceptable and further negotiations necessary. The credit terms would subject the sale to the Cargo Preference Act, the prices offered are somewhat below competitive world prices, and the delivery terms should be F.A.S. rather than F.O.B.

We have sent by air freight samples of butter and processed cheese and these samples are now being cleared through Customs by our Agricultural Counselor. We will air freight a sample of cheddar cheese today, January 25.

JAPANESE AUTOMOBILE EXPORT RESTRAINTS

Issue

The Government of Japan must decide by March 31 whether to extend their current auto export restraints to the United States for the third year. The U.S. auto industry (management and labor) is calling for the extension of the restraint through March 31, 1985 (fourth year), and a rollback in the level of restraint. An options paper is currently being prepared for approval by the TPC/CCCT. Ambassador Brock will raise this issue with the Japanese in detail in early February when he is in Tokyo.

Background

In May 1981, following strong Congressional pressure for a response to an increased Japanese share of U.S. auto market and high unemployment in the domestic industry, the Japanese announced a two year period of automotive export restraints, with a possible third year extension, at 1.68 million autos for the first year of restraint.

We have informed the Japanese that in view of continued low levels of sales (1982 was the worst sales year in 20 years) and high levels of unemployment, (300,000 autoworkers and approximately 600,000 auto parts workers), a third year of restraint, April 1983-March 1984, would be needed. The Japanese are also aware of the 97th Congress' consideration of a domestic content bill which was passed by the House. In addition to the anticipated reintroduction of local content legislation, the United Auto Workers and U.S. auto manufacturing companies have also called for a rollback in the Japanese restraint level in response to unanticipated depressed sales in 1981 and 1982.

Commerce is presently preparing an up-dated analysis of the auto outlook for the U.S. market for the Japanese fiscal year beginning April 1, 1983. This estimate, which should be completed within the next several days, will likely show total auto sales in the United States of just under nine million units (excluding Puerto Rico, but including vans). While an improvement over 1980 and 1981 sales of 8.9 and 8.5 million units, respectively, such an outlook is far below the annual sales of 10 and 11 million units that were achieved from 1976 to 1979.

Currently, in preparation is an options paper which will consider the advantages and disadvantages of various restraint proposals. This paper will be presented next week for TPC/CCCT consideration. Clearly, at least a third year of restraint is necessary for the economic viability of the domestic industry and to head off protectionist legislation.

U.S. Membership in the 1983 International Coffee Agreement

Issue:

Negotiations for a new International Coffee Agreement ended September 24. They resulted in an accord on a new six-year agreement to enter into force October 1, 1983. Should the United States join the new 1983 Agreement?

Advantages:

-- Membership would have important foreign policy benefits: it a) has an important impact on bilateral relations with Brazil, Colombia, Indonesia and the Ivory Coast; all play key regional roles; b) would avoid sharp criticism from developing nations in general; and c) would complement the political benefits of the Caribbean Basin Initiative.

-- The 1983 Agreement is improved along the lines we sought. Continued U.S. membership would encourage evolution in the right direction.

-- U.S. refusal to join would likely doom the Agreement and encourage disgruntled exporters to form a coffee cartel to raise prices. (Such an effort succeeded for a time in 1979-80.)

-- The Agreement might offer benefits in the form of more stable prices and supplies as well as protection against disastrous declines in export earnings.

Disadvantages:

-- The Coffee Agreement requires negotiated government decisions on the source, amount, types, and prices of coffee. Decisions best left to the market.

-- The Agreement's massive market intrusion is at sharp variance with the Administration's free-market philosophy.

-- The Agreement uses export quotas to regulate trade. They are inherently flawed because they provide no, or little, protection against price increases, while providing a cushion against price declines.

-- Country export quotas, in many cases, do not reflect expected export performances. Some countries are unlikely to be able to fill their export quotas, while others could ship more coffee than allowed. Moreover, the quotas permit non-member importing countries (primarily the Soviet Union) to purchase coffee at a discount, since exports to them do not count against quota.

 51

Background:

Based on a TPC mandate the United States entered negotiations for a new Coffee Agreement in January, 1982. The United States sought to make the Agreement more responsive to market signals and to increase consuming country influence in the management of the Agreement's economic provisions. The Agreement relies on annual and quarterly quotas as the mechanisms to regulate the flow of coffee designed to promote price stability. Over the longer term the price range can be adjusted downward or upward as supply and demand trends dictate.

Principal U.S. goals in the negotiation were to 1) improve the annual allocation of export quotas among exporting countries; 2) introduce a system by which export quotas of those coffees in greatest demand could be increased during the year; 3) penalize countries which failed to ship quota amounts; and 4) outlaw collusion among producer countries.

The new Agreement only partially fulfills the U.S. goals, but the Delegation did achieve at least some improvement in those areas we targeted and the new Agreement is better than the expiring one. Importing country influence was enhanced and export allocations among producing countries were improved. However, the United States did not achieve automatic adjustment to market signals -- though the door was left open to changes in that direction -- nor did the United States achieve a meaningful anti-collusion provision. Consequently, export shares -- questionable in any event -- tend to be rigid and access to certain types of coffee may be less than optimal.

The United States was a prime mover behind the first coffee agreement in 1962 as a means of helping Latin America cope with then huge coffee surpluses. From 1972 to September 1980, export quotas were not in effect because of relatively high coffee prices and the inability of consumers and producers to agree on a price range. In the late seventies, certain Latin American coffee producers attempted to raise the price of coffee through purchases and sales in the spot and future markets; that effort collapsed in the face of U.S. opposition and the return of surplus conditions to the market. Quotas were reintroduced in September 1980 and have been in effect since to defend a price range of \$1.15 - \$1.45 a pound. World coffee prices have largely stayed in the lower part of that range.

52

83 JAN 26 P 2: 23

WHITE HOUSE
SITUATION ROOM

WASHFAX RECEIPT

THE WHITE HOUSE

C

DEPARTMENT OF THE TREASURY

JAN 23 2 42 PM '83

WATCH OFFICE

K1

MESSAGE NO. 262 CLASSIFICATION ~~CONFIDENTIAL~~ PAGES 3

FROM Norman Bailey

(NAME) (EXTENSION) (ROOM NUMBER)

MESSAGE DESCRIPTION SIG - Economic Policy

TO (AGENCY)	DELIVER TO:	DEPT/ROOM NO.	EXTENSION
TREASURY	Marc Leland	3432	6 5363

REMARKS:

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE(S)

mn 03/07/2012

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name	*Withdrawer*
Robinson, Roger: Files	SRN 3/7/2012
File Folder	*FOIA*
SIG-IEP MEETINGS: 01/12/1983-01/26/1983	F01-052/3 GRYGOWSKI
Box Number	
6	48

ID	*Document Type* *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
132870	MINUTES SIG-IEP MEETING	3	1/27/1983	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]

C. Closed in accordance with restrictions contained in donor's deed of gift.