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WITHDRAWAL SHEET

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. agenda	Joint National Security Council/Economic Policy Council meeting (1p)	n.d.	P-1
2. memo	from David Wigg to R. McFarlane re: NSC/EPC meeting on enrolled bill S.812 (2pp)	11/30/85	P-1
3. memo	from McFarlane to Joint NSC/EPC re: December 3, 1985 meeting (2pp)	n.d.	P-1
4. memo	from the NSC/EPC to the President re: financial export control legislation (7pp)	11/29/85	P-1, P-5
5. agenda	joint NSC/EPC meeting (1p)	n.d.	P-1
6. list	of recommendations (1p)	n.d.	P-1
7. talking points	re: administration position regarding S.821 (4pp)	n.d.	P-1, P-5
8. memo	from William Martin to Donald Greg re: joint NSC/EPC meeting on enrolled bill S.812 (1p)	n.d.	P-1
9. agenda	joint NSC/EPC meeting (1p)	n.d.	P-1
10. memo	from J. Poindexter to Donald Regan re: subsidized grain sales to the Soviet Union (2pp)	7/19/86	P-1, P-5
11. paper	National Security Implications of Subsidies to the USSR (5pp)	n.d.	P-1
12. memo	from S. Danzansky to J. Poindexter re: subsidized grain exports to the Soviet Union (1p)	7/17/86	P-1, P-5
13. copy	of item # 11, with annotations (5pp)	n.d.	P-1
COLLECTION:			
DANZANSKY, STEPHEN I.: Files			db
FILE FOLDER:			
(8 of 11) RAC Box 12 Soviet Union (Grain) [6 of 8] Box 91819			12/5/94

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
- P-3 Release would violate a Federal statute [(a)(3) of the PRA].
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

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

- F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
- F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
- F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- F-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

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
14. memo	to S. Danzansky re: response to your question "What can Moscow do with 140 million?" (1p)	7/16/86	P-1
15. report	"Qualifing the USSR for the EEP (5pp)	n.d.	P-1
16. cable	from DOS re: near-term wheat pruchases by the Soviet Union (3pp)	7/16/86	P-1
COLLECTION:			
DANZANSKY, STEPHEN I.: Files			db
FILE FOLDER:			
Soviet Union (Grain) <i>(8 of 11) RAC Box 12</i> [6 of 8] Box 91819			12/5/94

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Grain (60+8)
Danzansky

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TAB D

To amend the Export Administration Act of 1979 to authorize controls on the export of capital from the United States.

IN THE SENATE OF THE UNITED STATES

MARCH 28 (legislative day, FEBRUARY 18), 1985

Mr. GARN (for himself and Mr. PROXMIRE) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To amend the Export Administration Act of 1979 to authorize controls on the export of capital from the United States.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Financial Export Control
4 Act".

5 SEC. 2. Section 2 of the Export Administration Act of
6 1979 is amended by adding at the end thereof the following:

7 “(10) Loans and other transfers of capital to the
8 Soviet Union and its allies from public and commercial
9 sources significantly increase the ability of those coun-
10 tries to obtain sensitive goods and technology, thereby

S. 812

2 and its allies.”.

3 SEC. 3. Section 3 of the Export Administration Act of
4 1979 is amended—

5 (1) in paragraph (2)(B), by striking out “and”
6 after the semicolon;

7 (2) in paragraph (2)(C), by striking out the period
8 and inserting in lieu thereof “; and ”; and

9 (3) by adding at the end of paragraph (2) the fol-
10 lowing:

11 “(D) to restrict the export of capital, the ex-
12 tension of credit, the making of loans, or the
13 transfer of financial resources to destinations to
14 which exports are restricted in order to carry out
15 the policy described in subparagraph (A) of this
16 paragraph.”.

17 SEC. 4. The Export Administration Act of 1979 is
18 amended by inserting after section 8 the following new sec-
19 tion:

20 “CAPITAL CONTROLS

21 “SEC. 8A. (a) AUTHORITY.—In order to carry out the
22 policy set forth in section 3(2)(D) of this Act, the President
23 may prohibit, curtail, monitor, or otherwise regulate the
24 export or transfer, or participation in the export or transfer,
25 of money or other financial assets, including the making of a
26 loan or the extension of credit, to the government of any

2 any organization or association owned by or acting for or on
3 behalf of such government or political subdivision thereof.
4 The authority contained in this subsection shall be exercised
5 by the Secretary of the Treasury, in consultation with the
6 Secretary of Defense, the Secretary of Commerce, and such
7 other departments and agencies as the Secretary of the
8 Treasury shall consider appropriate.

9 “(b) NEGOTIATIONS WITH OTHER COUNTRIES.—The
10 Secretary of the Treasury, in consultation with the Secretar-
11 ies of State, Defense, and Commerce, and the heads of other
12 appropriate departments and agencies, shall be responsible
13 for conducting negotiations with other countries regarding
14 their cooperation with controls imposed pursuant to subsec-
15 tion (a).”.

16 SEC. 5. Section 10 of the Export Administration Act of
17 1979 is amended—

18 (1) in subsection (a)(1), by striking out “All export
19 license applications” and inserting in lieu thereof
20 “Except as provided in subsection (k), all export li-
21 cense applications”;

22 (2) in subsection (j)(1), by inserting before the
23 period “, except in the case of any license that may be
24 required pursuant to section 8A of this Act, in which

2 procedures"; and

3 (3) by adding at the end thereof the following new
4 subsection:

5 "(k)(1) Any export license applications required pursu-
6 ant to section 8A of this Act shall be submitted by the appli-
7 cant to the Secretary of the Treasury. All determinations
8 with respect to any such application shall be made by the
9 Secretary of the Treasury.

10 "(2) To the extent necessary, the Secretary of the
11 Treasury shall seek information and recommendations from
12 the Government departments and agencies concerned with
13 aspects of the United States domestic and foreign policies and
14 operations having an important bearing on the policy set
15 forth in section 3(2)(D) of this Act."

16 SEC. 6. Section 12 of the Export Administration Act of
17 1979 is amended—

18 (1) in the second sentence of subsection (c)(1), by
19 inserting before the period the following: " , or in the
20 case of information obtained with respect to section 8A
21 of this Act, unless the Secretary of the Treasury so de-
22 termines"; and

23 (2) in subsection (e), by striking out "The Secre-
24 tary" and inserting in lieu thereof "Except with regard

2 retary".

3 SEC. 7. Section 14(a) of the Export Administration Act
4 of 1979 is amended—

5 (1) by striking out "and" at the end of paragraph
6 (19);

7 (2) by striking out the period at the end of para-
8 graph (20) and inserting in lieu thereof "; and"; and

9 (3) by adding at the end thereof the following:

10 "(21) actions taken by the President and the Sec-
11 retary of the Treasury to carry out the policies set
12 forth in section 3(2)(D) of this Act, as described by the
13 Secretary of the Treasury in a report submitted for in-
14 clusion as a part of the Secretary's annual report re-
15 quired by this section."

16 SEC. 8. Section 15 of the Export Administration Act of
17 1979 is amended by inserting "and the Secretary of the
18 Treasury" after "Secretary".

19 SEC. 9. Section 16 of the Export Administration Act of
20 1979 is amended—

21 (1) in paragraph (4) by striking out "and" after
22 the semicolon;

23 (2) in paragraph (5) by striking out the period and
24 inserting in lieu thereof a semicolon; and

25 (3) by adding at the end thereof the following:

2 credit sales, the supplying of funds through the under-
3 writing, distribution, or acquisition of securities, the
4 making or assisting in the making of a direct place-
5 ment, or otherwise participating in the offering, distri-
6 bution, or acquisition of securities; and

7 "(7) the term 'loan' includes any type of credit,
8 including credit extended in connection with a credit
9 sale."

○

Participants

The President

The Vice President

The Secretary of State

The Secretary of the Treasury

The Secretary of Defense

The Attorney General

The Secretary of Commerce

The Director, Office of Management and Budget

The Director of Central Intelligence

The Chief of Staff to the President

The Assistant to the President for National Security Affairs

Chairman, Joint Chiefs of Staff

brain (6048)
Panzansky

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Grass (6 of 8)
Danzansky

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THE JOURNAL OF COMMERCE, Friday, July 18, 1986

Farm Export Program Could Include Soviets

WASHINGTON — Senate Majority Leader Bob Dole, R-Kan., said the Reagan administration is considering broadening a \$1 billion farm export subsidy program to cover sales to the Soviet Union.

Sen. Dole told reporters that he believed foreign policy considerations are pushing the administra-

tion to reverse its longstanding opposition to giving subsidies that would help the Soviet Union and other Communist nations.

"My view is, you're going to see some movement by the administration in the export area," the Senator said of the year-old export enhancement program.

"I think it's fair to say it's under active consideration — I do detect some willingness" to expand the current subsidy program to include the Soviet Union, he said.

Agriculture Secretary Richard Lyng advanced the idea at a Cabinet-level meeting of the Economic Policy Council recently, at which he also described the bleak outlook for U.S. farm exports. There also have been numerous high-level meetings on the subject in recent weeks.

But a Lyng spokeswoman, Lynn Melillo, denied the secretary was advocating expansion of the program. Another administration official, speaking only on condition he not be identified, said the expansion idea was a possibility but only one of several under consideration.

"There are a whole bunch of alternatives out there, one of which might be changing the way the (export enhancement) program operates," the official said. "There are a lot of changes that could be done, including the Soviet one. I couldn't guess on how it will come out."

Farm groups and grain trading companies have complained that the administration's export enhancement program has been ineffective, and even may have damaged sales, because it discriminates against the Soviet Union, which in most years is the largest customer for U.S. grain.

cit in nearly three decades, and there are indications there could be a deficit again this month. Farm exports have slumped nearly 40% from their 1981 peak of \$43.5 billion.

The United States will export 28 million tons of wheat in this fiscal year, which ends Sept. 30. (AP)

The subsidy program offers bonus commodities, taken from government-owned surplus stocks, to certain targeted countries that agree to buy U.S. farm goods. In a year of operation, the administration has used \$264 million worth of bonuses to sell 4.1 million metric tons of wheat (4.5 short tons) and the equivalent of another 1.1 million tons in flour under the program.

As the November elections approach, pressure is growing for the administration to take action on trade and agriculture, two of the biggest problem areas for Republicans. Sen. Dole himself is up for re-election in the nation's largest wheat-producing state.

In May, the United States recorded its first monthly farm trade defi-

Steve

THE JOURNAL OF COMMERCE, Friday, July 18, 1986

US-Japanese Accord On Chip Trade Seen

By A.E. CULLISON

Journal of Commerce Staff

3A TOKYO — The U.S. and Japan will strike an agreement on semiconductor trade during negotiations set for Washington next week, Michio Watanabe, minister of international trade and industry, predicted.

During his appearance before the Foreign Correspondents' Club of Japan, the Japanese official said the resulting arrangement will be both "desirable and beneficial" although he conceded that the talks have been tough so far.

Nevertheless, Mr. Watanabe remarked that it would be "impossible" for the Japanese government to guarantee that the share of U.S.-manufactured semiconductors sold in Japan's market would be adequate in Washington's eyes in spite of U.S. demands.

Washington's negotiators insist that U.S. semiconductors get at least 20% of the Japanese mar-

The Japanese official said the resulting arrangement will be both "desirable and beneficial."

ket. U.S. products so far have not won more than an 11% share under present conditions.

However, he hinted that the Japanese government might be willing to urge major domestic purchasers of semiconductors to buy more of the U.S. products in an attempt to correct the present imbalance in the trade.

And he added that Washington's request to Tokyo that the Nakasone administration control the prices of semiconductors manufactured at the overseas subsidiaries of Japanese companies would be extremely difficult to comply with under present regulations.

LYNG SAYS USDA NOT CONSIDERING DIRECT EXPORT AID FOR USSR, CHINA

WASHINGTON--JLY 16--KRF--USDA SECRETARY RICHARD LYNG SAID THE ADMINISTRATION IS NOT CONSIDERING A PROGRAM TO PROVIDE DIRECT GOVERNMENT EXPORT SUBSIDIES TO THE USSR AND CHINA FOR PURCHASES OF U.S. WHEAT.

IN AN INTERVIEW WITH THE WASHINGTON EDITOR OF DOANE'S AGRICULTURAL REPORT, LYNG SAID HE AND OTHER ADMINISTRATION OFFICIALS WERE NOT CONSIDERING USING COMMODITY CREDIT CORP. STOCKS AS A DIRECT BONUS FOR THE USSR AND CHINA.

EARLIER TODAY, KNIGHT-RIDDER FINANCIAL NEWS REPORTED SENATE MAJORITY LEADER ROBERT DOLE, R-KAN., AS SAYING EXPANDED EXPORT PROGRAMS TO INCLUDE THE USSR AND CHINA WAS "UNDER ACTIVE CONSIDERATION" WITHIN THE ADMINISTRATION.

DOLE SAID, "IT'S FAIR TO SAY THAT (EXPANDING THE EXPORT BONUS PROGRAM TO THE USSR) IS UNDER ACTIVE CONSIDERATION."

THERE HAD BEEN RUMORS IN THE FUTURES MARKETS THAT THE DIRECT CCC BONUSES FOR THE USSR AND CHINA WAS AN OPTION BEING DISCUSSED BY USDA TO HELP BOOST LAGGING AGRICULTURAL EXPORTS. END

1326 CDT#XY

#RTATGAVEGHHTCX

THE WHITE HOUSE

WASHINGTON

July 16, 1986

MEMORANDUM FOR DANIEL AMSTUTZ
ROBERT CORNELL
STEVE DANZANSKY
RANDY DAVIS
THOMAS MOORE
ROBERT SEARBY
BRUCE SMART
ALLEN WALLIS
JAMES WARNER
ALAN WOODS

FROM: TIMOTHY J. HAUSER *TJH*
SUBJECT: Agriculture Coordination Working Group Meeting

The Working Group will meet on Friday, July 18 from 3:30 to 5:00 p.m. in Room 248 of the Old Executive Office Building. Please note that the meeting scheduled for 1:00 p.m. Thursday, July 17 has been cancelled.

The agenda for Friday's meeting will be a review of a new draft Economic Policy Council paper on world agricultural trade prepared by the Department of Agriculture, which is attached. The paper has been revised in light of discussion at the July 10 Working Group meeting. If time permits, we will also return to the discussion of options for increasing U.S. agricultural exports.

Attachment

WORLD AGRICULTURAL TRADE

Summary

After expanding rapidly in the 1970's U.S. farm exports fell from \$44 billion to \$27 billion between 1981 and 1986. Causes included: an appreciating dollar, weak international food demand, unfair competition, a global recession, and U.S. price supports that priced farmers out of the world market. The 1985 Farm Bill responded by freezing income supports and drastically cutting price supports. However, the U.S. and many other countries continue to support prices above market-clearing levels, encouraging excess production which is dumped on world markets and depresses world prices and export earnings. The long-run goal of U.S. farm policy is "safety net" protection for U.S. farmers with price supports set below normal market levels. This goal should be pursued in concert with trade liberalization among nations that currently distort international agricultural markets. Current price and income supports in developed countries are costing consumers and taxpayers about \$100 billion yearly. In addition, LDC's are losing about \$28 billion. Although agricultural exports are performing poorly now, the long-run solution (competitiveness through a lowered loan rate) is already in place. International trade tensions have been escalating, emphasizing the urgent need for multilateral trade negotiations. Any one country's adjustment costs are reduced under multilateral trade liberalization. Policy changes will be resisted in trade liberalizing nations by farmers who will realize real wealth losses as a result of changes in farm programs. If income support remains necessary, methods of income support should be adopted that do not distort production incentives.

I. Current Situation

a. Existing Farm Programs of Developed Countries

United States

- o Agricultural expenditures this fiscal year of \$25-26 billion are only slightly lower than projected net farm income.
- o Expenditures have escalated dramatically in the last 5 years.
- o Government-controlled inventories are approaching record levels.
- o U.S. dramatically lowered price supports for most commodities and started to phase out income supports. Even with reforms of the 1985 Farm Bill, heavy government presence in agriculture continues.

European Community (EC)

- o Agricultural budget costs are comparable to U.S.
- o Agriculture accounts for 60-70 percent of the total EC budget, and now threatens to cause a new budget crisis. Milk and cereal are subsidized the most.
- o Most EC farm expenditures support prices and incomes. One-third of expenditures goes to subsidize exports of farm products to non-EC markets, and two-thirds goes for intervention in internal EC markets

(withdrawal of surplus production). With dollar depreciation, the cost of export subsidies has soared.

Canada

- o Canada is much less interventionist at the Federal level than the U.S. and EC. Significant intervention occurs at the provincial level, however.

- o Three-quarters of Canadian Government assistance is for direct payments to farmers through commodity programs and for storage and freight payments, which subsidize the rail system.

- o Direct payments are for dairy subsidies, deficiency payments, and income stabilization programs.

Japan

- o Relative budget costs of supporting agriculture are similar to those in the U.S. and the EC.

- o Price supports are the largest portion of Japanese agricultural expenditures. Rice receives the greatest support.

- o After commodity price supports, land and rural development programs also are significant expenditures.

b. Political and Social Factors

- o While small in total number, the rural vote has tremendous influence in major trading countries. More than almost any other sector, agriculture is regulated, controlled, and subsidized at a high cost, to achieve fundamental social and cultural objectives.

- o At the Tokyo Summit, general agreement emerged that the agricultural surplus and disposal problems had reached the point where joint effort to eliminate them was in everyone's best interest. But, proceeding to a solution still faces many important problems:

- each country's food security interests (real or perceived);

- right of each sovereign nation to formulate social support policies in a fashion it deems most appropriate; and

c. Implications of Protecting Agriculture

- o Price supports generate excess productive capacity, bid up land and other asset prices, and keep too much labor in agriculture.

- o Most countries try to push resulting adjustment costs onto world markets (e.g., by subsidizing exports and restricting imports), inevitably causing frictions among the partners.

- o Internally, the strong political forces against change are linked to the high costs of change. Farm asset values would

decline. Past investments in agriculture would be underutilized. The number of farmers would be reduced.

--Some adjustment has already begun in the U.S. and Canada, causing considerable political difficulties.

- o Farm policies, especially price supports, significantly raise the consumer cost of food. This "food tax" is very regressive because the poor spend the largest fraction of their income on food.

- o The adoption of substitutes for artificially high-priced grains or sugar further distorts trade patterns and production patterns.

- o The net effect on developing countries is mixed. Food importing countries can purchase more food at lower total cost. But, exporting countries lose export revenues. This reduces economic growth potential and may contribute to political instability.

- o Protectionism that grows to protect internal agricultural price programs, for example sugar in the U.S. and the EC, further reduces the export and growth potential of the developing world.

II. The Future

a. Administration's Long-run Objectives

- o In U.S.--"safety net" farm programs: price supports at or below the normal market clearing levels to protect against catastrophic occurrences.

- o In world markets--market-oriented agricultural trade free of subsidies (direct or indirect), quotas, and nontariff barriers.

b. Attaining the Goal

(1) Stumbling Blocks

- o No country will unilaterally subject its agricultural policy to international monitoring--each country will want to maintain some control to insure food security.

- o Transition to free market means real wealth losses for protected farmers in all countries with associated political problems for all.

- o Regardless of economic, social, or political objectives, the goal of protecting farm income can be achieved without distorting prices through support or targetting mechanisms.

- o The U.S. Government has determined that the GATT will be the forum for negotiation but recognizes that other fora may contribute to finding the means of reducing international agriculture tensions.

of trade disciplines to correct trade distortions

(2) Fora for Addressing Transition

- o GATT/MTN--GATT rules are most relevant for border measures and are difficult to apply to many internal programs. Countries have often denied GATT jurisdiction over what they regard as purely domestic policy issues. Because many trade policies and disputes stem from producer and consumer responses to domestic policies, successful GATT negotiations must consider the changes in domestic policies needed to resolve trade disputes. GATT resolutions address the issue of unfair trade and can provide political leverage to bring about change in internal programs.

- o OECD--can provide research and analysis on domestic and trade policy interrelationships. Membership has agreed on summary indicators for comparing levels of price and income supports among countries. Can provide an annual assessment of domestic agricultural policies and their associated income transfers. Could be a forum for achieving consensus on the terms of reference for MTN negotiations.

- o Italian Summit--(to be filled in by working group)

(3) Transition Program in U.S.

- o Trade liberalization entails smaller adjustment costs when undertaken multilaterally rather than unilaterally. Adjustment costs need to be addressed. Among the programs that might be undertaken:

- Replace production distorting income support policies with nondistorting direct payments to farmers.

- Guarantee farmers income support at current levels to start and then phase down.

- Place effective limits on income support payments.

- Phase down the CCC budget from current levels.

c. Effects of Successful Multilateral Trade Negotiations

- o Eliminating domestic production incentives in all countries and permitting consumers to buy at world prices would cause world agricultural prices to be higher than otherwise. All countries would share in the adjustment to supply and demand shocks, increasing price stability. Global resources would be allocated more efficiently, promoting economic growth and benefiting all trading nations.

- o U.S. farmers would gain access to more markets and face less unfair competition. LDC's would also gain.

- o Adjustment costs, particularly in highly protected industries, could be defrayed with income transfers, provided they do not distort prices and production.

Grain (6 of 8)
Panzansky

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