The original documents are located in Box 9, folder "Financial Support Fund" of the Loen and Leppert Files at the Gerald R. Ford Presidential Library.

FOR IMMEDIATE RELEASE JUNE 6, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

TEXT OF LETTERS FROM THE PRESIDENT TO THE SPEAKER OF THE HOUSE OF REPRESENTATIVES AND THE PRESIDENT OF THE SENATE

Dear Mr. Speaker: (Dear Mr. President:)

I am today transmitting legislation to authorize participation by the United States in a new, $25 billion Financial Support Fund. This Fund would be available for a period of two years to provide short- to medium-term financing to participating members of the Organization for Economic Cooperation and Development (OECD) which may be faced with extraordinary financing needs.

The proposal for a Financial Support Fund originated in suggestions put forward independently by the United States and the Secretary General of the OECD as part of a comprehensive response to the economic and financial problems posed by severe increases in oil prices. Establishment of the Support Fund has been agreed upon, subject to necessary legislative approval, by all members of the OECD except Turkey, which has not yet signed the Agreement. The Support Fund represents, in my view, a practical, cooperative and efficient means of dealing with serious economic and financial problems faced by the major oil importing nations.

A Special Report on the Fund, prepared by the National Advisory Council on International Monetary and Financial Policies, accompanies this legislation. I fully endorse the Council's strong recommendation for U.S. participation in the Fund, and I urge prompt Congressional action to authorize that participation.

The financial problems arising from the oil price increases are expected to be transitional, although the real costs imposed by those price increases will remain. These financial problems do not reflect the inability of oil-importing nations as a group to obtain needed financing, because the investable surpluses of the oil-exporting nations are available to them in the aggregate. Rather, the problems arise from the possibility that despite satisfactory operation of the system as a whole, an individual nation will not be able to obtain, on reasonable terms, the external financing it needs to maintain appropriate levels of domestic economic activity. This inability might also lead to imposition of inappropriately restrictive policies on international trade and capital movements. If permitted to begin, recourse to such policies could spread quickly, severely disrupting the world economy and threatening the cooperation of oil-importing nations on energy matters and broader economic issues.

The private financial markets and other existing sources of financing are expected to continue to perform well, and it is our hope that these potential dangers will never materialize.

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However, this risk remains. It is common to all countries, and it must be faced. The Support Fund is designed to encourage cooperation among the major countries in energy and general economic policies, and to protect against this common risk by assuring fund participants that needed financing will be available on reasonable terms.

In essence, the Financial Support Fund represents an arrangement under which all participants agree to join in assisting one of their members if an extreme need develops. As such, the Financial Support Fund will serve as an insurance mechanism or financial "safety net," backstopping and thus strengthening other sources of financing. Its objective is to provide assurance that financing will be available in a situation of extraordinary need, rather than to supplant other financing channels or to provide financing on generous terms.

Participants must make the fullest appropriate use of other sources before turning to the Support Fund. Loans by the Support Fund will be made on market-related terms and will require specific policy conditions in the energy and general economic areas. Support Fund loans will thus contribute directly to cooperative energy policy and to correction of the borrower's external financial difficulties. A further provision, of major importance in such a mutual support arrangement, requires that all risk involved in loans by the Support Fund will be shared equitably by all participants on the basis of pre-determined quotas, as will all rights and obligations of members with respect to the Fund. The terms of the Financial Support Fund therefore assure it will not become a regular operating part of the world's financial machinery or be used as a foreign aid device.

The proposed United States quota in the Support Fund -- which will determine U.S. borrowing rights, financial obligations, and voting power in the Fund -- is 5,560 million Special Drawing Rights (SDR), or approximately $6.9 billion. This quota represents 27.8 percent of total quotas in the Fund. The legislation I am proposing today will permit the United States to participate in the Fund up to its SDR quota, by authorizing the issuance of guarantees by the Secretary of the Treasury. It is intended that any United States contributions will be primarily, if not exclusively, in the form of guarantees to permit the Support Fund to borrow in world capital markets as necessary to meet its lending needs. Most other members also intend to use this guarantee technique. This approach removes the need for the $7 billion in 1976 appropriations for the Support Fund, as proposed in the budget, and will also reduce outlays by $1 billion.

Only if a borrower from the Support Fund failed to meet the payments on its obligations would the United States be required to transfer funds as a result of its guarantees. In that unlikely event, the resources of the Exchange Stabilization Fund (ESF) would be used to fulfill the requirements of immediate payment on the guarantees. Should it appear desirable, in light of economic and other conditions, for the United States to make direct loans to the Support Fund, these could also be provided from the ESF in accordance with existing statutory authority.

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This new legislation provides for appropriations to be used to replenish ESF resources to the extent the Stabilization Fund is used for these purposes. In no event will U.S. financial obligations to the Support Fund exceed the dollar value of its quota.

The Financial Support Fund Agreement was signed on April 9. OECD member countries are now seeking legislative and other authority needed to enable them to participate. While the problems the Support Fund is designed to deal with are temporary, the need for the Fund is nonetheless real and immediate. I urge the Congress to act promptly to enable the United States to join in this major instrument of international financial cooperation.

Sincerely,

GERALD R. FORD

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The proposed United States quota in the Support Fund -- which will determine U.S. borrowing rights, financial obligations, and voting power in the Fund -- is 5,560 million Special Drawing Rights (SDR), or approximately $6.9 billion. This quota represents 27.3 percent of total quotas in the Fund. The legislation I am proposing today will permit the United States to participate in the Fund up to its SDR quota, by authorizing the issuance of guarantees by the Secretary of the Treasury. It is intended that any United States contributions will be primarily, if not exclusively, in the form of guarantees to permit the Support Fund to borrow in world capital markets as necessary to meet its lending needs. Most other members also intend to use this guarantee technique. This approach removes the need for the $7 billion in 1976 appropriations for the Support Fund, as proposed in the budget, and will also reduce outlays by $1 billion.

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