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THE WHITE HOUSE  
WASHINGTON

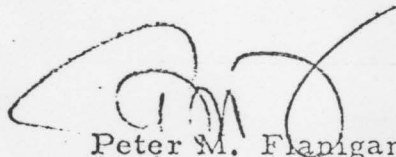
March 10, 1973

MEMORANDUM FOR: THE CHAIRMAN OF THE OPERATIONS  
GROUP

SUBJECT: Action-Forcing Events

Last year, at my request, the Operations Group produced a list of Action-Forcing Events under IEP/OG-SM 13A of March 3, 1972.

The information provided was very useful and I request you prepare a similar list for the coming year, applying the same guidelines as those utilized last year. The due date for submission to me is March 21.

  
Peter M. Flanigan  
Assistant to the President  
for International Economic Affairs

The Honorable William J. Casey  
Deputy Under Secretary of State  
for Economic Affairs  
Room 7250  
New State  
Washington, D. C. 20520





DEPARTMENT OF STATE

Washington, D.C. 20520

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COUNCIL ON INTERNATIONAL ECONOMIC POLICY  
OPERATIONS GROUP

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March 26, 1973

IEP/OG-SM 19B

MEMORANDUM FOR MR. PETER M. FLANIGAN  
THE WHITE HOUSE

Subject: Action-Forcing Events

As requested in your memorandum of March 10, 1973, attached is a list of major events in the international economic arena in 1973 which may require actions or decisions by the U.S. Government.

*Fred H. Sanderson*

Fred H. Sanderson  
Acting Staff Director

Attachment:  
As stated.



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GDS December 31, 1978

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ACTION-FORCING EVENTS  
1973

A. High Level Visits and Trips

1. Brezhnev Visit (June-tentative)

Brezhnev is expected to return the President's Moscow visit sometime this year, possibly in June. Economic matters again are likely to be highlighted.

2. Third Meeting of Joint US/USSR Commercial Commission (Before July)

This should take place in Moscow during the first half of the year. The principal issues will be MFN and progress on business facilities and a US Commercial office in Moscow.

3. Third Meeting of American-Polish Trade Commission (Before July)

This should take place in Warsaw during the first half of the year. The principal issues will be reviewing the recommendations of the Working Group on Business Facilities which met in Warsaw March 1-7, 1973, and discussing Polish interest in a general economic and technical cooperation agreement and an agricultural agreement.

4. Visit of Prime Minister Tanaka of Japan to Washington (July 1973)

In late July 1973 Prime Minister Tanaka is expected to make his first visit to Washington since he assumed office. The visit will provide an opportunity to examine, and possibly to resolve or defuse, bilateral problems with Japan, particularly in the key areas of trade and monetary relations.

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5. Ortoli visit to the US (Third Quarter-tentative)

New EC Commission President Francois Xavier Ortoli (France) has indicated that he would like to visit the United States. We would expect Ortoli to meet with the President and appropriate Cabinet officials. His visit would provide us an opportunity to review at the highest level major aspects of US-West European relations and their interconnections. We are tentatively expecting that Ortoli might come to Washington in the third quarter of 1973.

B. Major Conferences

1. GATT 24:6 Negotiations (March 15 onward)

The US is seeking compensation for increases in protection resulting from the accession of the UK, Denmark, and Ireland to the EC.

2. OAS-General Assembly (April)

This will be the first meeting of the OAS General Assembly following President Nixon's second inauguration. We anticipate that the Latin Americans will be looking for a new policy statement from us. They will be interested in US views on the evolving mission of the OAS and on ways to achieve that mission under present international circumstances. We also expect them to raise economic issues that were left unresolved at the last IA-ECOSOC meeting.

3. OECD Meeting of Agricultural Ministers (April 11-13)

Secretary Butz expects to attend this meeting in Paris on agricultural trade and policy issues.

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4. International Development Association (IDA)  
(May 1)

On May 1 and 2 in Tokyo, the industrialized country members of IDA will hold their third meeting to consider the overall dimension and respective shares of a fourth replenishment to IDA, to come into effect July 1, 1974. McNamara is proposing \$1.5 billion annually for three years. The third replenishment was \$800 million annually for three years, of which the US share was 40 percent. The US has indicated that this proportion should be reduced, but has not yet undertaken Congressional consultations on the extent of US participation. IDA is planning a "wrap-up" meeting on the fourth replenishment for Washington in July.

5. OECD High Level Oil Committee (May 8-11)

This forum and meeting appear likely to take on new dimensions as the implications of the world petroleum supply and distribution situation have impacted on OECD members. Cooperation, how much, with whom, multilateral or bilateral, etc., will demand attention. The other OECD members anticipate leadership from the US in this regard.

6. GATT 24:5b Examination of EC/EFTA Free Trade Agreements (May and June)

Working parties will convene to determine if the free trade agreements conform with GATT requirements. The US position is that the agreements are not consistent with GATT requirements.

7. OECD Ministerial Meeting (June 6-8)

We expect the Ministers to consider the work underway in the OECD Executive Committee (New Style" concerning international investment, a number of

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trade policy issues, and the inter-relationship between monetary reform and trade negotiations. Van Lennep is expected to be in Washington sometime in April to review plans for the Ministerial meeting and discuss US representation to the meeting. This will provide an early opportunity to discuss our objectives for the meeting.

8. Meeting of the Joint US-Japan Committee on Trade and Economic Relations, Tokyo (June 27-29-tentative)

The Ninth Meeting of this cabinet-level group, which has met every year or so since 1961, is tentatively scheduled to be held in Japan in June. Although not a forum for negotiating, ECONCOM IX will be a focal point for coordinating our economic policies with those of Japan as well as consulting on our bilateral economic problems.

9. OECD Executive Committee "New Style" (Early June)

gus? Meetings will probably be held in early June and early October, to carry on this group's work on the inter-relationship of international investment, trade, and monetary matters.

10. Conference on Security and Cooperation in Europe - Helsinki (Late June or early July)

The Conference will probably begin in late June with a meeting of foreign ministers, continue at the expert level during summer and early fall, and conclude with another high-level meeting in late 1973. Among the main area of East-West discussions will be economic cooperation, including commercial exchanges and industrial cooperation. In the economic field, atmospheric impact is likely to outweigh substantive developments, though the US would be affected

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if a tendency toward pan-European economic cooperation at the expense of US interests were to emerge.

11. Bilateral and/or GATT Consultations on Impairment of US Trade due to the EC/EFTA Agreements (June and July)

Rather than press the legal issues to a decision in GATT, we will enter into consultations calling for adjustments or compensation where US trade is impaired. We want these consultations to proceed expeditiously and to be concluded prior to the September Ministerial launching the Multilateral Trade Negotiations. In the absence of satisfactory agreement on adjustments or compensation in these consultations, we will state that we will feel free to exercise our GATT rights.

12. Hijacking (September 4)

ICAO has scheduled simultaneously an extraordinary assembly and a diplomatic conference to develop an instrument to enforce state conformance with international standards in dealing with hijackers and hijacked aircraft. We hope to modify one of the proposals to be presented to that conference, the so-called Nordic proposal, to include the essential elements of the original US-Canadian draft.

13. Annual Meeting of the IMF and IBRD (September)

The Annual Meetings of the International Monetary Fund and the International Bank for Reconstruction and Development are scheduled to be held in Nairobi this year. Both monetary and development issues will be discussed. Of prime interest will be the recommendations on international monetary reform which are to be submitted by the C-20 of the IMF to the Board of Governors for action.

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14. Multilateral Trade Negotiations (September)

A major new round of trade negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT) will begin in the Fall, opening formally in Tokyo in September. Detailed negotiations, expected to last at least two years, will begin in Geneva later in the year. They will cover a wide range of tariff and non-tariff barriers to trade in both agricultural and industrial products.

15. ITU Plenipotentiary Conference (September 14-October 26)

The Plenipotentiary Conference of the International Telecommunication Union, the first such meeting since 1965, will be taking decisions affecting the ITU for the next 5-8 years. An interagency Preparatory Committee, established over a year ago, is preparing the US position papers.

16. International Conference on Marine Pollution (October)

One of the most important factors affecting the completion of the 1973 International Convention on Pollution from ships will be the US position on the construction of tankers. The US position is that the convention should include a requirement for a new type of construction for tankers (i.e., ships having segregated ballast) which would reduce the costly shore reception facilities now required. Considerable opposition to our position is expected from other countries.

17. United Nations Conference on Law of the Sea (November-December)

The third UN Conference on the Law of the Sea will convene for a two-week organizational session

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at UN Headquarters in November or December 1973, prior to an eight-week substantive session in Santiago, Chile in April-May 1974.

The Conference will deal with the full range of oceans policy issues, including such questions of key economic importance as deep seabed minerals resources, fisheries, international navigation, marine pollution and marine scientific research.

18. GATT 29th Session of the Contracting Parties

The timing and content of the 29th Plenary Session, while difficult to anticipate at this time, will be heavily influenced by developments with respect to the Multilateral Trade Negotiations.

C. Legislation

1. Trade Reform Act of 1973 (April tentative)

The Administration's bill, currently in the final drafting stages, will be sent to the Congress in the very near future. Authority to participate in the upcoming multilateral trade negotiations together with provisions for generalized preferences and MFN for socialist countries will be continually action forcing.

2. MFN for Communist Countries (April)

The Mills-Vanik Bill in the House and the Jackson Bill in the Senate, which would deny MFN treatment and Soviet access to government financing programs until the USSR drops its heavy taxation of emigrants, are directly counter to Administration efforts to obtain MFN authority.

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3. FY 1974 Foreign Assistance Legislation  
(April-May)

The planned FY 1974 request will include \$1.3 billion for bilateral development assistance and humanitarian relief programs and \$755 million for security assistance. Congressional hearings will begin before Easter and resume in May.

4. Equal Export Opportunity Act of 1972 (May)

The Act requires a report by the Secretary of Commerce in May 1973 on US export controls (both items and control procedures) greater than those exercised by other COCOM countries and the reasons for their reduction. This requirement will force a decision on the extent of liberalization of US East-West trade controls.

5. International Financial Institution Legislation (May)

State and Treasury will testify in hearings before the House Appropriations Committee (Passman) involving over \$1.2 billion in Administration-requested appropriations for FY 1974 for the International Development Association, Inter-American Development Bank, and Asian Development Bank. Requests for the latter two institutions had been cut by Congress from the FY 1973 Continuing Resolution.

6. Shipping and Energy Resource Legislation  
(1973 tentative)

It is likely that a successor to last year's Garmatz Bill to limit 50 percent of US petroleum and/or other imports to US flag vessels will be introduced by Senator Magnuson.

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We can anticipate other legislative proposals coming out of the Jackson Interior Committee and perhaps others in the Senate and House directed toward dealing with various aspects of the energy problem. Some of these may have international ramifications.

7. PL 480 Act Expires (December)

The Public Law 480 - the Agricultural Trade Development and Assistance Act of 1954, as amended - expires December 31, 1973. USDA is including renewal of PL-480 in the omnibus Agriculture bill being proposed to Congress this session. To continue our food aid programs, Congressional action will be needed before the end of the year.

8. Agricultural Act of 1970 Expires (December)

New legislation is to be introduced in 1973 to modify and extend the old act for a four-year period.

D. The European Community

1. US-EC Consultations (March, July, October-November)

The March 21-22, 6th Round of US-EC Consultations, which will take place in Brussels, will focus on preparations for the multilateral trade negotiations in September, on GATT examination of the EC enlargement agreements and the EC-EFTA free trade arrangements, relations with the LDC's, energy, and EC industrial policy.

The 7th Round (in Washington) may take place in late July and will concentrate particularly on last-minute problems with regard to the trade negotiations. We will probably hold the 8th Round (Brussels) in late October or November, at which we will again hold





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a full review of US-EC economic relations.

2. Negotiations with Enlarged Community under GATT Article XXIV (March-August)

Negotiations under Article XXIV:6 began in March. We hope these negotiations can be completed before the fall.

3. EFTA Non-Applicant-EC Trade Arrangements (March-August)

Initiation of GATT examination of these agreements has been delayed. We believe we are entitled to consultations with respect to impairment of our trade interests and hope they can be concluded before the fall.

4. EC Preferential Trade Agreements with LDCs (Spring onward)

We expect to keep up the pressure particularly in the case of the EC's Mediterranean policy to try to eliminate reverse preferences and those special preferences in EC agreements with LDC's which harm our exports - e.g., citrus. In the special cases of Spain and Israel, we consider that the present agreements are inconsistent with GATT rules. We expect to pursue our rights and interests under GATT and explore the recent Israeli offer to discuss ways to mitigate the impact of reverse preferences on our trade interests. Discussion with the Commission of the new pattern of our mutual relations with the LDC's (both trade and aid) is especially timely as the enlarged EC begins to work out new relationships with the former Commonwealth countries in Africa and the Caribbean

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E. Commodity Issues

1. Steel (April)

The US District Court's opinion that the Voluntary Restraint Arrangements (VRA) are not exempt from the antitrust laws is being appealed. The Court of Appeals for the District of Columbia Circuit has requested all briefs by April 1, and hearings will follow shortly thereafter with a decision possible before June. If further appeals are required, we would hope for a Supreme Court validation of the VRA in the 1973-74. Meanwhile, the European and British signatories have threatened to suspend their participation in the VAR pending the outcome of the appeal, fearing damage suits under the antitrust laws. To induce their continued cooperation, we have offered to seek validating legislation if the appeal fails.

2. Sugar (May and September)

The International Sugar Agreement of 1968 is scheduled for renegotiation in 1973. The US is not a party to this Agreement, but our own sugar legislation is to expire December 31, 1974; and we must shortly arrive at some conclusions as to the relationship between any extension of our domestic sugar program and the attitude we might adopt with respect to a new International Sugar Agreement.

3. International Wheat Agreement (June)

The International Wheat Agreement, 1971 will expire on June 30, 1974. Because of lead time necessary to prepare for a negotiating conference, the decision as to whether or not to call for such a conference must be taken at the June 1973 meeting of the International Wheat Council.

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4. Food Aid Convention (June)

The Food Aid Convention 1971 is a separate convention under the International Wheat Agreement, 1971, but will also expire on June 30, 1974. A decision will have to be made at the next meeting in June, 1973 of the Food Aid Committee on a successor arrangement, if any.

5. Extension of International Coffee Agreement (September)

The 1968 International Coffee Agreement expires on September 30, 1973. Major coffee producing and consuming countries appear agreed that negotiation and entry into force of a new Coffee Agreement by October 1, 1973 is no longer a practical possibility. Therefore, it appears that agreement will be reached to extend the administrative provisions of the 1968 Agreement in order to preserve the Coffee Council as a forum for discussion of coffee problems and eventual negotiation of a new Agreement. In such an extension of the present Agreement, all operative economic provisions (e.g., quotas, controls, diversification fund) would be deleted. The US will have to decide whether to remain a party to such an extended (but emasculated) Coffee Agreement.

6. Textiles (September)

Conclusion of bilateral man-made fiber and wool textile restraint agreements with major Far Eastern exporters in 1971 provided significant relief to the domestic textile industry. Present import trends from third countries, however, are again posing a threat of disruption in the domestic market and attendant damage to the domestic industry.

Faced with the expiry of the GATT Long-Term Arrangement Regarding International Trade in Cotton



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Textiles (LTA) on September 30th, this year and with the prospect of difficulties in the Congress with general trade legislation if the textile import problem is not solved before such legislation is completed, the US is undertaking a major effort to achieve within the framework of the GATT a new multifiber international textile trade arrangement to replace the LTA and to provide a mechanism for regulating trade in man-made fiber and wool textiles. Failure to achieve this objective before the LTA expiring in September and the beginning of the MTN in the same month would alarm the domestic industry and as a result complicate and inhibit Congressional consideration of the Administration's trade legislation proposals.

7. Meat Import Program (December)

The suspension of the voluntary restraint program on meat imports announced by the US in December, 1972 will expire on December 31, 1973. Before that date, we will have to consider whether the program should be reinstituted, and if so, what levels of meat imports will be permitted.

8. Petroleum (1973)

The pressure of the Organization of Petroleum Exporting Countries on the international oil companies is likely to have further negative effects on the latter's solidarity, as well as their function in processing and providing this vital energy resource. This will create opportunities for cooperation and conflict among the major consuming nations and with the producing countries. We will need to formulate our views and policies on the respective roles of the government and private companies in the conduct of the international petroleum business.

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9. Stockpile Reductions (1973)

The Administration plans to reduce greatly the National Strategic and Supplemental Stockpile. Existing authority permits disposal of a portion of present stocks, but legislative authorization will be required for the balance. Many of the commodities which will be designated surplus are produced by LDC's, who are concerned about our initiating large disposal programs that may disrupt their traditional markets and reduce their foreign exchange earnings. Careful administration of the disposal and consultations with producer countries will be required to avoid foreign relations problems in the course of carrying out the stockpile reductions. Those countries who will be most affected are Australia, Bolivia, Canada, Gabon, Indonesia, Jamaica, Malaysia, Peru, Sri Lanka, Thailand and Zaire.

F. Others

1. C-20 Monetary Reform Negotiations (March, May and July-tentative)

Negotiations on international monetary reform will be proceeding in the Committee of Twenty of the International Monetary Fund. The C-20 Deputies are to prepare a document setting forward concrete proposals for consideration by the Ministers, who will then negotiate a set of recommendations for submission to the Board of Governors by the time of the Annual IMF/IBRD Meetings scheduled for Nairobi in September.

2. Church Subcommittee on Multinational Corporations (Late March Onward)

The Subcommittee's hearings will focus on multinational corporations as they relate to foreign relations. The hearings will first take up the ITT/Chile case, next examine OPIC, and then move on to broader considerations.

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3. Chile Policy (March 22-23)

We will conduct a second round of "wide-ranging" bilateral discussions with the Government of Chile, in which the primary focus is compensation for expropriated property and debt repudiation. The Chileans may invoke the 1914 US-Chile bilateral treaty, which provides for a non-binding third party mechanism to deal with disputes between the two countries. In May, the Paris Club of creditor nations is scheduled to resume discussions on rescheduling Chile's 1973 debt service. A multilateral agreement was reached last April on rescheduling Chile's 1972 debts; because of lack of progress on the compensation issue, the United States is the only creditor nation which has not yet implemented this agreement with a bilateral understanding.

4. Dairy Imports (April)

The Tariff Commission will submit a report to the President early in April of its findings of an investigation of the cheese situation. On the basis of the report the President may authorize the importation of an additional 64 million pounds of quota cheese for a temporary period ending July 31, 1973. The Cost of Living Council has proposed that the cheese quotas be temporarily enlarged to expand cheese supplies and reduce prices.

5. Asian Development Bank (ADB) Manila (April 26-28)

For the sixth consecutive year at the annual meeting of the Board of Governors the United States will be unable to meet its commitment to make a \$100 million contribution to the Special Funds of the ADB because it was cut from the current Continuing Resolution Authority with respect to the Foreign Aid Bill. Nor have we yet sought legislative authority

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or appropriations for the US share of the ADB's 150% capital replenishment which became effective November 23, 1972. We will need a US position with regard to our plan for these two measures to present at this meeting.

6. OAS Special Committee on Consultation and Negotiation (May 7 and June)

Consultation with Latin American countries on general strategy for multilateral trade negotiations in response to a commitment to do so.

7. Offset Negotiations (June 30)

Negotiations will soon get underway on new arrangements to replace the current offset agreement with the FRG which expires on June 30. The principal issues will be the level of FRG military procurement and expanded cost-sharing arrangements.

Under study in the USG are proposals for neutralizing the balance of payments costs of stationing troops in NATO, including both multilateral arrangements and additional bilateral arrangements.

8. Major Debt Rescheduling (June)

The question of division of responsibility for international debt between Pakistan and Bangladesh may come to a head this summer. Pakistan has announced its desire to cease acknowledging responsibility for any credits attributable to the former East wing when the current interim rescheduling agreement with Pakistan expires on June 30, 1973. For its part, Bangladesh has not expressed willingness to assume responsibility for this debt prior to settlement with Pakistan of other financial issues between the two countries. Over \$1.1 billion is involved, of which the US share is \$540 million.

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In June 1973, the India consortium will reconvene to consider an extension of the continuing debt re-scheduling exercise, in which the US participated in FY 1973 to the tune of \$29 million out of a total of \$151 million.

9. Extra-High Voltage Equipment (June 30)

The Office of Emergency Preparedness is to advise the President before June 30 whether or not imports of extra-high voltage equipment are threatening the national security. The Director will decide if imports are impairing domestic mobilization base capabilities by discouraging continued domestic production of such equipment and possible investment in research and development in improved EHV equipment. If the finding is affirmative, the President must either disagree with the finding or take action to adjust imports.

10. Moorhead Subcommittee Delinquent Debt Hearings (Spring)

The Foreign Operations and Government Information Subcommittee of House Government Operations Committee holds quarterly hearings, exact timing uncertain. These periodic hearings focus on overdue debts owed to the USG by foreign governments. Subjects at coming hearings are expected to include the FRELOC claims against France, World War I debts, and military debt arrearages.

11. COCOM Negotiations on Computer Control Levels (Before July)

The review of the COCOM strategic list was completed in September 1972 without modification of controls on computers and computer-related equipment. The re-assessment of US computer export policies toward Communist countries proposed by the Department

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of Commerce on January 15, 1973, should be completed before mid-year to permit us to conclude negotiations on the COCOM embargo level.

12. Expiration of the Laurel-Langley Agreement with the Philippines (July 3, 1974)

This event will require adjustment to the post Laurel-Langley trade and investment relations between the Philippines and the United States. We are exploring once again the question of whether there may be any mutually satisfactory basis for a successor agreement.

13. Japanese Space Cooperation (mid-Summer)

Efforts by the Japanese to up-grade the level of US space technology available to them under the 1969 Space Cooperation Agreement will continue. A policy decision will be required by mid-Summer. Factors involved include complaints of "job exporting" by AFL-CIO and longer-range concerns about contribution to a potentially competitive Japanese capability,

14. European Space Cooperation (August)

The final disposition of a \$300 million commitment by the Europeans to participate the Post-Apollo Space Shuttle development will be known by August 15. A governmental level executive agreement should reach a decisive stage by that time. Principal issues are likely to be US commitment procurement from Europe of production hardware and terms governing European access to the shuttle system.

15. Status of US Economic Relations with North Vietnam Under the Vietnam Agreements

Revision of existing shipping, trade, financial,

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and travel restrictions (both legislative and administrative) will be necessary as part of redefinition of US economic relationships with both parts of Vietnam.

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## THE WHITE HOUSE

WASHINGTON

December 13, 1973

## MEMORANDUM FOR:

THE SECRETARY OF STATE <sup>Casey</sup>  
 THE SECRETARY OF THE TREASURY <sup>Rennett</sup>  
 THE SECRETARY OF AGRICULTURE <sup>+ Volck; Dam</sup>  
 THE SECRETARY OF COMMERCE <sup>- Butz/goodman</sup>  
 THE DIRECTOR OF THE OFFICE OF  
 MANAGEMENT AND BUDGET <sup>- Dent/Fox</sup>  
 ✓ THE CHAIRMAN OF THE COUNCIL OF  
 ECONOMIC ADVISORS <sup>Bridgwater</sup>  
 ✓ THE SPECIAL REPRESENTATIVE FOR  
 TRADE NEGOTIATIONS <sup>Stein</sup>  
 THE ASSISTANT TO THE PRESIDENT <sup>Pace, Propps, Jackson</sup>  
 FOR NATIONAL SECURITY AFFAIRS <sup>Malugin</sup> <sup>- Cooper</sup>

## SUBJECT:

Executive Committee Meeting of the  
 Council on International Economic Policy,  
 Friday, December 21, 11:00 AM, Roosevelt  
 Room.

The agenda for this meeting is as follows:

I. Action Items

A. Article XXIV:6 Negotiations -- The EC has offered compensation for injury to our trade resulting from the expansion of the Community. The offer is considerably less than our minimum request. Tab A sets forth the options for a U.S. response. (Ambassador Eberle)

B. Trade Bill -- The Trade Bill which passed the House incorporates many changes in the Bill which the Administration proposed. Tab B details the Administration's positions on these changes and the reasons therefore, which positions will be reflected in the submission to the Senate. (Ambassador Pearce)

C. Foreign Investment in the U.S. -- Hearings on foreign investment in the United States are scheduled in both the House and Senate shortly after the Congress reconvenes. As part of its broader study on International Investment, the CIEP Working Group has considered the issue of reverse foreign investment. Tab C sets forth proposed guidance for Administration witnesses at the Congressional hearings. (Mr. Niehuss)





## II. Status Reports

D. International Investment -- The study on International Investment has as its goal the proposal to the Council of a U.S. position on international investment. Parts of this work are incorporated in C above and in U.S. positions taken at the Executive Committee meetings of the OECD on this subject. Tab D sets forth the current status and the schedule of this work. (Mr. Niehuss)

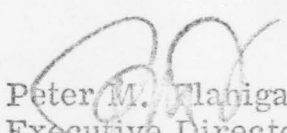
E. International Capital Markets -- As part of the broader study on capital markets, the CIEP has directed a study on international capital markets, which are influenced by capital controls, withholding and estate taxes, and banking regulation. As set forth in Tab E, Treasury is preparing proposals in the first two areas, and the CIEP working group, including participants from the Federal Reserve, is preparing proposals on banking regulations. (Mr. Erb)

F. GATT Trade Negotiations -- The Trade Negotiating Committee met in Geneva on October 26 to begin preparatory work on the trade negotiations. Tab F sets forth the status of the TNC discussions and the prospects for its upcoming meetings. (Ambassador Malmgren)

G. Peru Negotiations -- Negotiations with the Government of Peru regarding the nationalization of U.S. corporate assets are reaching conclusion. The status of the negotiations will be reported by Mr. Sternfeld.

H. Others -- Attached at Tab H is a report on the CIEP Work Program.

Please inform Glen Stafford of my staff (456-2937) of your attendance by c.o.b. December 19.

  
Peter M. Flanigan  
Executive Director  
Council on International Economic Policy





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December 14, 1973

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OFFICE OF THE SPECIAL REPRESENTATIVE  
FOR TRADE NEGOTIATIONS

EXECUTIVE OFFICE OF THE PRESIDENT

WASHINGTON

20506

OPTIONS FOR EC-US NEGOTIATIONS  
UNDER GATT ARTICLE XXIV-6

I. Problem

We have received from the EC its supplementary offer of compensation for the changes it proposes to make in GATT schedules because of the accession to the EC of Denmark, Ireland and the United Kingdom.<sup>1/</sup> The Community stated that on presenting the list of supplemental concessions it considers that it is offering sufficient compensation to conclude the XXIV:6 renegotiations with

1/ We believe that our trade position has been adversely affected by the changes in these GATT schedules. These changes will result in net tariff unbindings and duty increases affecting some \$933 million of our average 1970-71 annual exports to Denmark, the UK and Ireland of GATT-bound items. The duty increases on items of interest to us is estimated to be about \$177 million per annum in increased duty collections, of which \$155 million is estimated as attributable to agricultural items, with variable levies on cereals accounting for \$115 million.

The EC believes our position is unsound. They point to the fact that the acceding countries are lowering duties on more GATT-bound imports from the U.S. (\$1,431 million) than will be affected by duty increases or unbindings (\$933 million), and assert that we will be overall net beneficiaries from enlargement. (Questions on the overall height of tariffs collectible before and after enlargement have not been resolved between the analysts on each side. The decrease in duties collectible on the \$1,431 million of trade in bound items affected by duty reduction would be some \$40-45 million.)

Thus, the EC considers it owes the U.S. nothing, and that its XXIV:6 obligations toward the U.S. are met if it preserves the general level of GATT bindings on imports from the U.S. The U.S. considers that it has a right to a pattern of bindings qualitatively equivalent, from the U.S. point of view, to those it had in the past. This difference of interpretation is not new. It also characterized the XXIV:6 negotiation in 1960-61 after the establishment of the EC by the Treaty of Rome.

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E.O. 12958, SEC. 3.5

NSC MEMO, 11/24/98, STATE DEPT. GUIDELINES

BY 141 NARA DATE 9/6/05



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all third countries concerned and for all products. The EC offer does not satisfy the U.S. claim under Article XXIV:6 of GATT for compensation for proposed increases in GATT-bound tariffs, nor does it make acceptable provisions for the future treatment of several items of significance to us (wheat, feedgrains, tobacco, citrus, paper and construction equipment). We anticipate that the EC will be willing to discuss the offer with us, but that it will be very difficult perhaps even impossible, to obtain improvements in it.

The three acceding countries began to apply the Common Agricultural Policy on certain products earlier this year and they will make a 40 percent move toward the Community tariff on January 1, 1974. In making duty increases they are expected, under GATT procedures, to withdraw bindings so that they will be free to raise duties. Should the EC withdraw <sup>2/</sup> concessions of interest to us without our agreement, we can -- on thirty days notice and within six months of the EC action -- make equivalent withdrawals of U.S. concessions, without prior authorization by the Contracting Parties. Such withdrawals should be made by June 30, 1974, for both commercial and legal reasons, unless it is agreed that the XXIV:6 negotiations should be prolonged for a considerable time.

To be in a position to respond promptly and decisively, we must decide now how to proceed. The President should approve the

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<sup>2/</sup> We have had indications that the EC will not notify the withdrawal of bindings before January 1, 1974 but will proceed (as in 1961) to align on the schedule proposed for the enlarged EC.

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broad outlines of our reaction not only because of the broader trade policy consequences but also because the manner in which these issues are dealt with could have a significant impact on the political climate in U.S.-European relations, and therefore affect developments on other negotiating fronts in the political and security fields.

II. Options

The U.S. has three basic options,<sup>3/</sup> as follows:

1. Reject the EC offer and prepare now to make compensatory withdrawals as soon as possible after the EC withdraws concessions (January 1, 1974).
2. Seek agreement to extend until June 30, 1976, the GATT deadline for making compensatory withdrawals and negotiate the XXIV:6 settlement in the course of the multilateral trade negotiations (MTN). Thus, we would, for the time being, "live with" the EC global concessions made as a result of the XXIV:6 negotiations of recent months.
3. Request specific improvements in the EC offer and aim for EC-US agreement or compensatory withdrawals before June 30, 1974.

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<sup>3/</sup> Another possible option would be to accept the EC offer. To date, there has been no support for that option in interagency discussion, and it is therefore not treated here. It might be considered, however, that Option II is a form of acceptance -- since it could well lead to an overall settlement in which the XXIV:6 elements might not be identifiable.

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Option I. Reject the EC offer and prepare to make compensatory withdrawals as soon as possible after the EC withdraws concessions (January 1, 1974). We would: inform the EC that the compensation offered is insufficient to enable us to agree to the proposed concession withdrawals; request additional concessions in the expectation that the EC will not grant them but will terminate negotiations; announce our intention to make compensatory withdrawals if the EC withdraws concessions of interest to us; acting under GATT procedures, suspend or withdraw U.S. concessions if the EC withdraws or breaches GATT bindings.

Pro:

1. We would assure that our rights under the GATT were upheld and the balance of trade concessions was not upset.
2. The position of the executive with Congress, industry, and agriculture would be enhanced and the chances for the passage of the trade bill would be improved by this decisive action protecting our legitimate trade interests.
3. The proposed withdrawals would not go into effect until the Trade Information Committee holds hearings and the list is approved by the President. During this period, the EC may be shocked into offering meaningful concessions.
4. This course of action would clear the slate and enable all concerned to concentrate on the forthcoming MTN.

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5. This course would force members of the Community to take hard decisions by the end of the year, either to work seriously to resolve differences or to see overall relationships with the U.S. deteriorate badly. It would increase pressures on the French as others perceive that there are real risks in allowing French policies to be imposed on the Community.

Con:

1. It is neither necessary nor desirable for the United States to expect or to cause the negotiations to fail and thus to take the blame for their failure. It is not customary to break off a negotiation on receipt of an improved offer, particularly when no formal request has been made of the negotiating partner. If the offer is insufficient, the EC should be so informed. It would have the alternatives of improving it or of assuming the onus of terminating the negotiations. We should not act abruptly to close their options and ours.
2. For limited trade considerations we would be endangering other political and economic objectives. The Europeans would be less likely to proceed positively and actively in relation to the Atlantic Declaration or the MTN. The internal EC political reaction would be likely to create an atmosphere of conflict between the U.S. and the EC,

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which could adversely affect other negotiations, including such specific problems as textiles. New impediments are likely to be created for the attainment of U.S. objectives in areas of major importance to us; e.g., CSCE, Atlantic Declaration, energy, world food cooperation, etc.

3. Compensatory withdrawals by the U.S. would exhaust our GATT rights without any direct benefit to those U.S. exports which have been harmed and it would increase the cost of imported goods on which we raise tariffs.
4. The EC might react by withdrawing some of the concessions contained in its impending offer.
5. Action by the U.S. which would be seen as ill-conceived and reckless by others could undermine progress for developing support for our policies and perspectives among members of the Community, and discourage their efforts to reverse or moderate French policy. It could also deprive us of the position of leadership we must play in developing a consensus among other countries in Europe and even around the world, and could cause them to follow EC leadership as a "safer" course.

Option II. Seek agreement to extend until January 1, 1976,  
the GATT deadline for making compensatory withdrawals and negotiate  
XXIV:6 settlement in the course of the multilateral trade negotiations  
(MTN). We would: inform the EC that the compensation offered is  
insufficient to enable us to agree to the proposed concession with-  
drawals; state that if the EC withdraws concessions of interest to

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us and institutes the proposed new schedule for the enlarged EC, we will defer until January 1, 1976, a decision as to whether or not to exercise our rights to make compensatory withdrawals, provided, that the Contracting Parties will agree to extend to January 1, 1976, our rights to make these withdrawals.

Pro:

1. As we would not formally accept the EC offer, we would be able to argue strongly that we should be given additional compensation in the MTN to compensate us for its inadequacies -- especially in the cereals sector.
2. Our overall relations with the EC would benefit were we to hold our hand and negotiate further during the course of the MTN in the hope of reaching an MTN settlement that would justify us in foregoing compensatory withdrawals.
3. This course of action would postpone problems third countries would have if we withdrew U.S. concessions as proposed under Option I.
4. All countries would have a greater interest in furthering the success of the MTN, as that success might satisfy our interests and make it unnecessary for us to raise duties or take other compensatory action.
5. This course of action would preserve our options on the larger issues, permitting us to bring them to resolution



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at a point in time more favorable to us; i.e., after they have been more clearly defined and we have had the opportunity to consider whether they might best be resolved by exerting United States influence at a higher than technical level and perhaps in the context of settlement of a broader range of issues.

Con:

1. The EC is unlikely to agree that we have a right to effect compensatory withdrawals since it considers that its new schedule is such as to afford reasonable compensation for all our claims. Furthermore, the EC considers that the MTN must be based on full reciprocity between developed countries; hence, the EC will not offer more than we do in the MTN, in order to obtain our agreement not to make compensatory withdrawals.
2. It would be bad commercial policy to evoke uncertainty regarding the stability of U.S. GATT commitments.
3. Uncertainties regarding the stability of the U.S. schedule would not help us in the MTN; on the contrary, they would complicate the negotiations, since both we and others need a firm starting point for successful bargaining.
4. The Trade Reform Act would be prejudiced because it would seem that the Administration is unwilling to exercise

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promptly and effectively present U.S. trade agreement rights, and Congress would feel it should delay a further grant of authority pending the exercise of powers we now have. Furthermore, there is the possibility that there may not be new trade legislation.

5. There is no guarantee that postponing Article XXIV:6 issues for two years while we emphasize positive themes of Atlantic cooperation will improve prospects for an Article XXIV:6 settlement; indeed with the passage of time the Community's present agricultural and preferential policies may take deeper root, and the Community may come to believe that in time we shall abandon our Article XXIV:6 claims.

Option III. Request specific improvements in the EC offer and aim for EC-US agreement or compensatory withdrawals before June 30, 1974. The President would be requested to approve in principle compensatory action if agreement is not reached with the EC. Before January 1, 1974, the U.S. would request specific improvements in the EC offer.

Pro:

1. We keep open the possibility of obtaining trade benefits for those products hurt by tariff realignment and the adoption of the CAP by the acceding countries.
2. We position the U.S. to keep the benefits of the EC offer on a permanent basis, as the EC would put its new schedule on tariff concessions into effect "while continuing to negotiate." In the end, if agreements were not reached,



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there could be less need for compensatory withdrawals.

3. By making specific requests now we show domestic interests that we are acting in their behalf and we lay the groundwork for a diplomatic effort to convince the EC and the Member States that a reasonable settlement is possible.
4. We can institute domestic procedures for the suspension or withdrawal of U.S. concessions, should the renegotiations fail, and this will help convince the EC that it should try to reach timely agreement with us.
5. We do not prejudice action on the Trade Reform Act, as (a) we will be proceeding with domestic steps preliminary to possible U.S. withdrawals, and (b) the Trade Bill will have been enacted before the results of the negotiations are known.
6. Option III avoids the main disadvantages of Options I and II; it does not foreclose our options (as does Option I) and it does not remove for two years (as does Option II) the pressure to achieve an Article XXIV:6 settlement. It gives us sufficient time to continue, in parallel with other governments, a serious effort to arrive at reasonable XXIV:6 settlement. During this time we can adjust our pressures on the EC to accommodate them to the negotiating situation and to take into account domestic and foreign repercussions of our actions. In this way we can get the

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best possible settlement at the least risk of impeding the attainment of our objectives in other economic, political and security areas of the EC-US relationship.

Con:

1. The EC will not negotiate bilaterally with the U.S. -- since it feels no net compensation is due the U.S. -- and will not give serious consideration to the U.S. request for improvements in the EC offer.
2. The EC will not be willing to negotiate after January 1, 1974, when it takes the next move to give effect to a new schedule for the enlarged EC.
3. Even controlled escalation of our XXIV:6 differences with the Community risks locking its members as a group into defense of the current Community position, with resulting consolidation of the differences between us. This would make an Article XXIV:6 settlement more difficult to achieve, and it could unfavorably affect US-EC cooperation in the political and security areas.

III. Negotiating Scenario

The following scenario sets out the broad lines of the negotiations if Option III is accepted. It highlights the points where basic decisions and events are likely to occur. Departures from the scenario are to be expected. It is impossible to foresee the manifold twists and turn of any negotiations.



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| (a) EC Presents Supplemental Offer List  | December 13, 1973                    |
| (b) U.S. Informs EC That EC Offer is Inadequate  | December 14, 1973                    |
| (c) U.S. Presents "Formal" Request List  | Fourth week December 1973            |
| (d) New EC Members Move 40% Toward CXT   | January 1, 1974                      |
| (e) Negotiate With EC  | January 2, 1974 - May 25, 1974       |
| (f) U.S. Leaks Preliminary Work Program on Withdrawal List to EC and Lets Commission Know Informally of Course of Action Approved by the President | First week January 1974              |
| (g) Decision On Items For Public Hearings  | First two weeks February 1974        |
| (h) Advise EC of U.S. Domestic Procedures On Withdrawals   | During first two weeks February 1974 |
| (i) Publication of Proposed Withdrawal List and Call for Public Hearings   | About February 15, 1974              |
| (j) Proposed List Presented For Presidential Approval  | Mid-May 1974                         |
| (k) Settlement of XXIV:6 Or President Signs Proclamation Of Withdrawals and Duty Increases to Become Effective June 25, 1974                       | May 25, 1974                         |
| (l) U.S. Officially Notifies CPs Of U.S. Withdrawals   | May 25, 1974                         |
| (m) Withdrawals Take Effect  | June 25, 1974                        |

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IV. Recommendation

STR recommends Option III.

This course of action allows us to proceed in a deliberate, controlled response to the EC position, but as circumstances unfold, allows us the possibility to elect other options if desirable. It is the course of greatest flexibility, while maintaining our rights, keeping pressure on the EC, and enabling us to show domestically that we are defending our interests.



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