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THE WHITE HOUSE
WASHINGTON

August 7, 1978

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT *B. D. R. H.*

SUBJECT: New York Emergency Declaration

I am sorry for the confusion about the costs involved in the New York Emergency Declaration. The \$2 million required for temporary drainage work is included within the total cost of the declaration of about \$3 - \$4 million. The additional \$1 - \$2 million above the \$2 million for drainage would be used for evacuation, temporary housing, sealing vacant houses and certain medical examinations that might be provided by the U.S. Public Health Service.

I have spoken several times today with FDAA officials about the costs involved, and I can say that they are not ready to "live or die" on the \$3 - \$4 million total estimate. As always, they claim that their initial estimates are made quickly and on the basis of facts which very often change. But it is FDAA Administrator Bill Wilcox' best judgment at this point that the total Federal cost would be in the \$3 - \$4 million range.

If you want, we can require FDAA to let us know as soon as the \$3 million has been expended and to seek further authorization from us before spending additional funds.

Tell them this is what I prefer

THE WHITE HOUSE
WASHINGTON

August 7, 1978

*This is growing
rapidly. Do you
mean \$2 million
plus \$3-4 million
more?*

JC

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT *by D. R. Holt*

SUBJECT: New York Emergency Declaration

Until final liability is determined for the Love Canal disaster, what portion of the costs each of the involved parties will bear are not known. However, in the short-term, with the problems of evacuation and immediate health treatment, it is easier to provide a picture of who is doing what:

- 1) New York State -- The state has committed \$3 million to help in the clean-up effort. Of that, \$700,000 is to be spent in assessing the health effects of the chemicals on the residents of the area. Most of the remaining funds will be spent draining the Canal of the chemicals, and attempting to remove the residue from the area. In addition, the state has formed a task force, headed by the State Secretary of Transportation, to work on the day-to-day problems that will arise as a result of the evacuation and attendant problems.
- 2) Niagara Falls -- This city is in poor financial shape; last year it almost declared bankruptcy. The city Board of Education is equally weak financially. No meaningful resources are therefore expected from the local area in the short-term.
- 3) Hooker Chemical Company -- Hooker is naturally concerned about taking steps which will be seen as conceding liability for the disaster. However, the company has already committed \$400,000 to help with the clean-up of the Canal. It is possible that the company may direct more substantial sums to the problem in the near future, but there is no firm commitment yet to do so.

The Federal government is being asked to supplement these activities in the amount of \$3 to \$4 million. Those sums would be spent helping with the evacuation, the provision of temporary housing for the evacuees, and the securing of the affected area (such as boarding-up houses). As best as we can determine, the financial and technical resources for these activities cannot be provided readily by the state or local governments.

It is possible that, when ultimate liability is determined, the sums expended by the Federal government could be recovered. In several similar instances in the 1960's, the Federal government's expenditures for disasters caused by private corporations were recovered eventually by the Federal government. The Justice Department is now exploring the possibility of such a suit in this instance. At this point, it is not yet clear, though, who would be sued for recovery.

THE WHITE HOUSE
WASHINGTON

August 7, 1978

MEMORANDUM FOR:

FROM:

SUBJECT:

THE PRESIDENT

STU EIZENSTAT
LYNN DAFT

Recommendation for an Emergency
Declaration -- New York

*What portion
of the costs of
this project will
be borne by New
York State, Niagara
Falls, and
Hooker?*

*They
must
share
with U.S.
Gov't.
JC*

In the attached letter, Secretary Harris recommends that you grant an emergency declaration to the State of New York for the purpose of dealing with the environmental problem affecting a part of the City of Niagara Falls. The problem is the leakage of waste products from the "Old Love Canal" and the growing evidence that it is causing spontaneous abortions and congenital malformations in the immediate area. This declaration would trigger emergency actions by the FDAA to deal with the immediate people problems, mostly involving relocation of the affected families. The Environmental Protection Agency is working with the State and City and with the Congressional delegation to design a construction program to eliminate the hazard.

We recommend that you grant the requested declaration. We have talked with Doug Costle about the situation and he concurs in this recommendation.

By granting this declaration, you will not be conceding Federal liability for the faulty storage at the Canal. The difficult question of liability -- there are allegations that the Army was involved in the storage -- will have to be decided much later by the courts.

3770

THE WHITE HOUSE

WASHINGTON

7 August 1978

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR
THE HONORABLE JUANITA M. KREPS
Secretary of Commerce

Re: Your Memo Entitled, "National
Export Policy"

The President reviewed your memorandum on the above-referenced subject and made the following decisions:

Recommendation #1 - Approved. The President added: "You take the lead, emphasizing my approval. Rafshoon can determine the level of my involvement."

Recommendation #2 - Disapproved. "I oppose DISC, but am willing to make a cautious statement. No study."

Recommendation #3 - Approved.

Recommendation #4 - Disapproved. "Let's stick to \$245 million proposal. We may compromise, but we also may have to veto bill."

Recommendation #5 - Approved.

Recommendation #6 - Approved.

Recommendation #7 - Approved. However the President deleted the word "Particular" from the last sentence in the first paragraph under #7. Thus, it reads:

'The Departments of Commerce, State, Defense, and Agriculture would be directed to weigh export consequences as a factor, along with other factors, when considering the use of export controls for foreign policy purposes. Weight would be given to whether the U.S. goods in question are also available from countries other than the United States.'

Recommendation #8 - Approved. "Some guidelines, as considered appropriate by Justice. No loopholes for bribery."

Recommendation #9 - Approved.

Recommendation #10 - Disapproved. "Justice may wish to clarify situation as it now exists."

Recommendation #11 - Approved. "Agencies absorb this to maximum degree."

Recommendation #12 - Disapproved. "PEC might be revived."

Recommendation #13A - Disapproved.

Recommendation #13B - Disapproved. "Administrative action now being taken. Better than legislation."

Recommendation #14 - Approved.



Rick Hutcheson
Staff Secretary

cc: Secretary W. Michael Blumenthal
Ambassador Robert Strauss
Stu Eizenstat
Zbig Brzezinski
Jim McIntyre
Charlie Schultze
Anne Wexler
Jerry Rafshoon

THE WHITE HOUSE

WASHINGTON

August 3, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT *Stu*
BOB GINSBURG

SUBJECT: Export Policy

Attached are:

- (1) a memorandum from Commerce setting forth the recommendations developed by the Export Policy Task Force; and
- (2) separate memos from CEA and OMB setting forth their views on the Commerce paper.

CEA recommends that you accept Commerce's basic package (items 1-12) except that you reject the proposal for a continuing review of the need for an export tax incentive. CEA also recommends that you request a PRC study of the major export barriers (such as Jackson-Vanik, anti-boycott and anti-bribery legislation, etc.) which it feels were not dealt with adequately by the Export Task Force. CEA's general views are that: our recent export performance has been poor but not disastrous; the Task Force recommendations are unlikely to have a significant impact upon exports; and each individual proposal should be considered on its own merits, rather than being viewed as part of an all-or-nothing package.

OMB believes that: the Task Force recommendations are not significant enough to amount to a "national export policy"; the financial incentives called for are likely to be costly in budgetary terms but not very effective in promoting exports; and that the major disincentives to exports have not been adequately reviewed. OMB recommends that you defer all decisions involving increased tax or budget expenditures until the fall budget reviews and that the Administration undertake, under White House direction, an intensified review of all potential impediments to exports.

Because of the diversity of viewpoint among Commerce, CEA and OMB on the nature of the "export problem" and the Commerce recommendations, we recommend that you read all three memos.

We believe that your decisions on the specific recommendations should be taken within the following overall framework:

1. We generally agree with the CEA/OMB conclusion that the Commerce recommendations are unlikely to have a significant impact on exports. In our view, the hard truth (and the reason we were hesitant about getting the Administration involved in a high-profile, public effort in this area) is that as far as unilateral policy actions are concerned the U.S. can dramatically increase its exports only by taking initiatives along the following lines:
 - (a) terminate or severely curtail our arms sales and human rights efforts and repeal the foreign bribery and Arab boycott laws;
 - (b) provide massive tax and/or spending subsidies for exports.

We regard the first set of initiatives as unwise on both policy and political grounds and the second set as inappropriate for economic and budgetary reasons.

2. Nonetheless, the Commerce recommendations do include some modest steps in the right direction. We should take these steps and take credit for them. Largely because of the depreciation of the dollar, the U.S. export performance is likely to be strong over the next year or more in any case. (We are already beginning to see improvement in the June export figures.) Some of this positive performance will redound to the credit of whatever export policy we announce.
3. The Task Force has made 14 policy recommendations, which Commerce has divided into 12 "essential measures" and 2 "additional measures." Commerce states that the

first 12 measures are "essential to a comprehensive and credible export policy" and that "the elimination of any of them would substantially weaken the total effect, and the psychological impact would be jeopardized." It is true that since most of the individual proposals are not dramatic, it takes a number of them together to amount to a meaningful policy. But we do not agree that you should consider this as an all-or-nothing package. Accordingly you should feel free to consider each of the recommendations on its own merits, rather than feeling obligated to approach this package on a take-it-or-leave-it basis. However, without the bulk of these recommendations, there will be very little to announce and we will be worse off than if we had not attempted to enunciate an export policy in the first place.

4. We do not agree with the OMB recommendation that you should defer your decisions on any increased funding for export promotion until the fall budget reviews. In our view, that approach is politically unsound and would provoke genuine criticism that the Administration is incapable of enunciating an export policy after months of study. The amounts requested are relatively small and can be debited against the Commerce and other agency budgets at the time you make your decisions for FY 1980.
5. CEA and OMB recommend that the Administration conduct a serious review of some of the fundamental barriers to exports such as arms sales and human rights policies. We are concerned that if such a review became public, it would generate damaging publicity, e.g., stories that the Administration was considering reversing such fundamental policies as human rights and arms sales because of their effect on exports. Accordingly, we recommend that, if you decide to order such a review, you issue a private directive and the review be held very tightly within the White House.

Our recommendations on the Commerce proposals follow:

1. Presidential Commitment. Commerce believes that your personal involvement will give a boost to the export policy announcement. On the other hand, as we have indicated above, there is substantial doubt as to whether these proposals constitute a significant enough "policy" to merit your personal involvement. We recommend that your commitment to the promotion of exports be indicated (perhaps by Secretary Kreps) but that the level of your personal visibility be decided upon after consultation with Jerry and Jody.
2. Export Tax Incentive. Commerce proposes that the Administration reaffirm its opposition to DISC but at the same time state that we have no philosophical objection to an export tax incentive per se and that the Secretaries of Treasury and Commerce will be directed to continue to review the need for an export tax incentive. The problem with this is that Secretary Blumenthal, Ambassador Strauss, Undersecretary Cooper, etc., are telling our foreign trading partners that the U.S. does object to export subsidies and that foreign governments should eliminate or curtail such subsidies.

Another basic problem is that the better targeted an export tax credit is, the more in violation of GATT and our MTN posture it will be. We have just completed an interagency effort to develop an export tax credit, and the best proposal presented was one which you and your senior White House advisers rejected. Further publicly directed review in this area is a no-win situation:

- (a) either we conduct a study and come up dry again, which will embarrass us and disappoint much of the business community; or
- (b) we develop a more effective alternative to DISC (which will likely be illegal under international trade rules) and we then become obligated to renew our fight on DISC next year.

While we should not make the commitment to further review that Commerce proposes, we can strike a positive tone in the export announcement by stating that we are willing to work with the Congress this session to come up with a better alternative or make DISC less costly and more effective. Accordingly, we recommend that you disapprove this proposal, with the understanding that the export announcement will reflect our willingness to work with Congress on this issue.

3. Increased Eximbank Funding. Commerce proposes that you increase Eximbank's direct loan authority from the FY 1980 budget mark of \$3.9 billion (up from \$3.6 billion in FY 1979) to \$4.1 billion. Of the various financial incentives for exports, Eximbank is probably the best vehicle. A \$500 million increase over FY 1979 would be a substantial initiative for which the Administration could take considerable credit. We recommend that you approve this proposal. †

4. Taxation of Americans Abroad. The Administration has already made a proposal in this area (which you personally approved last February), which would cost about \$245 million. The Ribicoff bill, which has passed the Senate, would cost about \$310 million; this bill is a responsible approach to the problem but, according to Treasury, needs some revision in order to be made administratively workable. The House has not yet passed legislation but the Ways and Means Committee is about to report out a very bad bill which will cost about \$545 million. Commerce proposes that the Administration drop its own proposal and support the Ribicoff bill.

We do not think the Administration should change its position before conference and before the House even has a bill. Treasury's Congressional liaison staff and Frank Moore's shop agree that it would be unwise legislative strategy to drop our proposal at this time. In any case, rather than flatly supporting the Ribicoff bill as it now stands, we would want to first secure the changes necessary to make it workable.

Again, we can take a positive line in the export announcement by stating our willingness to work out a common approach with the Ribicoff bill. With that understanding, we recommend you disapprove this proposal.

Note: You should know that there is a very good chance that the House bill will prevail over the Ribicoff bill in conference and that the Congress will pass a very expensive piece of legislation which you may decide to veto.

5. SBA Targeting to Exporters. We recommend that you approve this proposal. †

6. Export Consequences of Regulations. Commerce proposes that agency and department heads be required to take into account the effect on U.S. exports of their major administrative and regulatory actions that have significant export consequences. This could be an important item in reducing the arbitrary impediments to U.S. exports. We recommend that you approve this proposal. +

7. Use of Export Controls as a Foreign Policy Tool. Commerce recommends that export consequences be weighed as a factor, along with other factors, when considering the use of export controls for foreign policy purposes. We agree that the effect on exports should be considered as a major factor, along with foreign policy, in decisions involving the use of export controls. However, we do not think that exports should be given an automatic priority and caution that the reference in the decision memo to giving "particular weight" to whether the U.S. goods are available from alternative suppliers may have that effect.

Accordingly, we recommend that you approve this proposal but that you cross out the second sentence of this item from your decision memo. Otherwise, it will be assumed that our human rights and arms sales policies have become subservient to exports. + (-)

8. Guidelines Clarifying the Foreign Corrupt Practices Act. Commerce recommends that the Justice Department be directed to issue guidelines clarifying the requirements of the anti-bribery statute. We have discussed this matter thoroughly with the Justice Department and they are prepared to provide some affirmative guidance as to the kinds of violations they deem most serious; however, it would be improper for them to indicate which violations of the law they will not prosecute. With that understanding as to the "guidelines" Justice will provide, we recommend that you approve this proposal. + ?

9. Antitrust Business Review Procedure. We recommend that you approve this proposal, which calls for prompt Justice Department response to business questions on international antitrust issues and additional educational work by the Justice Department. We have discussed this item with Justice and, although they regard it as window dressing, they will be glad to cooperate. +

10. Expansion of Webb-Pomerene Exemption to Include Services. The Webb-Pomerene Act provides an exemption under the antitrust laws for U.S. firms forming a consortium for the export of goods. Commerce proposes that we seek to amend the Act to provide a similar exemption for the export of services. Some members of the business community believe that this Act restrains their ability to bid on foreign engineering and construction contracts. The Justice Department disagrees and points out that there have not been any prosecutions under the Act in over 20 years.

After meeting with us, Justice has agreed to provide language for the export announcement which would provide further guidance and reassurance to businessmen in this area by indicating that most joint export arrangements (and particularly those involving one-shot bidding on single projects) would not raise antitrust problems. But Justice believes we should not seek to amend the Act because that would be inconsistent with the Administration's antitrust stance and could provide some encouragement for foreign cartels. (Justice also advises that the National Commission which you appointed to review the antitrust laws may recommend outright repeal of the Act; it could be embarrassing if the Administration were in the posture of going in the opposite direction by proposing a formal expansion of the Act.)

Accordingly, we recommend that you disapprove this proposal, with the understanding that the export announcement will include reassuring language along the lines indicated above. ~~✗~~

11. Export Assistance Programs. We strongly recommend that you approve Commerce's de minimis request for an additional \$20 million to provide better assistance to U.S. exporters. This is very important to demonstrate our commitment to the promotion of exports; without this proposal, our policy may appear empty. ✗

12. Interagency Committee on Export Expansion. Commerce proposes that you create an interagency Committee on Export Expansion, chaired by Commerce, to oversee the Administration's export effort. The Committee would publish an annual, public report for the President on the progress made. Our experience over the past several months has made us very skeptical about the wisdom of, in effect, making the Export Task Force a permanent Administration body, complete with annual report. We would suggest instead that the export expansion effort be monitored by the Commerce Department and/or the EPG.

Instead of creating a new interagency task force, we recommend that the Administration revive the President's Export Council, a private sector advisory group which has been dormant in recent years. Businessmen continue to be interested in the Council and would probably appreciate its revitalization. (For example, Reg Jones has suggested that the Council, with technical assistance from Commerce, could sponsor seminars and "schools" for new exporters.) This move would have symbolic value, and Commerce could be the lead agency in dealing with the Council. If you prefer not to take this step, we would have no objection to the interagency committee proposed by Commerce.

_____ Revive the President's Export Council ✓

_____ Create Interagency Committee on Export Expansion

13. Agricultural Financing and Assistance. Part A of this proposal represents existing Administration policy and, accordingly, you need not make a new decision on this issue. Part B calls for Administration support of legislation establishing agricultural assistance offices abroad. The Department of Agriculture is already moving, under existing authority, to establish these offices where it is prudent and cost effective to do so. (We can take credit for this in the export announcement.) However, we do not think that it would be appropriate for the Administration to support legislation under which Congress mandates where foreign agricultural assistance offices should be located. These offices should be established by the Department on a case-by-case basis as justified by the merits, rather than through legislation forcing the Department to spread its resources in efforts which may not be worth the cost. Accordingly, we recommend that you disapprove proposal B. A *

14. Multilateral Discussion of Compensatory Defense Agreements. We recommend that you approve this proposal. ✓

KREPS



MEMORANDUM FOR THE PRESIDENT

SUBJECT: National Export Policy

On April 11, you directed me to chair an interagency task force to recommend measures to increase U.S. exports. Assistant Secretary Frank A. Weil chaired the task force's executive committee which reported to me. This memorandum summarizes for your consideration the recommendations developed by the fifteen member group.^{1/}

Slow export growth has been an important, but inadequately addressed, problem. The problem did not start during this Administration. The seeds were planted a long time ago. The problem, however, has continued to grow, and its effect on the trade balance has become more evident.

A cohesive package of recommendations is proposed which would constitute the beginnings of a national export policy and would be consistent with point 20 of the Bonn Summit Declaration. There is no quick fix for the export problem, but an effective start must be made. The problem has been approached unsuccessfully four times by various Administrations since 1962. The proposals in this package are an important and necessary first step, but a continuing effort will be needed.

In large part, export success depends upon the attitude and motivation of business, and the psychological factors in this area can be almost as important as the substance of the recommendations. Any belief that the Administration is not sufficiently concerned about exports must be reversed.

^{1/} The agencies involved in the discussions were the Departments of State, Treasury, Agriculture, Justice, Commerce, Labor and Defense; as well as Federal Reserve, STR, OMB, CEA, NSC, DPS, Eximbank, and SBA.

Last year the United States suffered a record \$31 billion trade deficit, and most observers anticipate continued large deficits assuming present economic policies continue. Large imbalances could persist even with implementation of the Administration's energy and anti-inflation programs, despite increased U.S. price competitiveness resulting from changes in exchange rates to date.

Oil imports are a major factor in our deficit. However, so much attention has been paid to oil imports that we have failed to address our other fundamental trade problem: slow export growth, particularly of manufactured goods, and a steadily deteriorating U.S. position in total world trade.

The Export Problem -- Over the past two decades, U.S. exports have grown at only half the rate of other industrial nations. The problem has worsened during the last several years. Adjusted for inflation, real U.S. exports have shown virtually no growth in more than three years; they have contributed nothing to growth in real GNP, employment, or real income since 1974. Our competitors, by contrast, have managed a real export growth rate (even excluding their exports to the United States) of nearly 4 percent per year since 1974 despite slow worldwide economic growth. Consequently, the United States has been losing its share of world markets. Had the United States maintained the same share of industrialized country exports that it had in 1974, U.S. exports in 1977 would have been \$13 billion larger.

The mainstays of the U.S. export position are agricultural goods (\$24 billion last year) and manufactured goods (\$80 billion). The problem is particularly severe for manufactures, which are two-thirds of our exports. The volume of agricultural exports last year was up 16 percent from 1974, but the volume of U.S. manufactured goods exports has actually fallen since 1974. In 1976 we had a \$12 billion surplus in manufactures trade. That fell to a \$3 billion surplus in 1977. Thus far in 1978, manufactures trade is in deficit at an annual rate of \$12 billion.

Improving the Current Account -- In the absence of a further dollar decline, there are basically two ways to improve the non-oil current account in addition to the energy and anti-inflation efforts already underway: non-price measures to reduce imports or measures to increase exports.

Imports can be reduced either by slowing the U.S. economy in order to lessen the demand for foreign goods or by adopting a much more

restrictive import policy. However, the reduction in economic growth necessary to cut imports significantly would result in a serious recession and increased unemployment. A full one percent reduction in GNP, for example, would reduce imports by \$3 billion at most. A highly protectionist policy, on the other hand, would aggravate inflation, abrogate U.S. international obligations, and invite almost certain retaliation.

It is, therefore, far preferable to deal with the non-oil trade problem through increased exports rather than by imposing barriers to imports or slowing U.S. economic growth. The agencies responsible for economic policy are unanimous in recommending that the U.S. Government should reduce the major disincentives to exports posed by Federal laws and regulations. There is also general agreement that affirmative Government incentives and assistance for exports should be expanded.

Reliance should not be placed on changes in the value of the dollar. A cheaper dollar does help improve the trade balance by lowering the price of U.S. exports and raising the price of U.S. imports. A rough rule of thumb is that a one percent decline in the value of the dollar is necessary to improve the trade balance by \$1 billion at an annual rate, after a two-year lag.

The problem with dollar depreciation is that it runs serious risks with which you are familiar, including increased private capital outflows that would magnify the decline of the dollar; depressed stock market conditions; potential increases in OPEC oil prices; increased inflation and, in general, difficulty in carrying out our foreign economic policy.

Non-Price Factors -- Improvements in relative prices can and should be supplemented by selective incentives and assistance designed to overcome business reluctance to explore export opportunities and correct for imperfections in private markets. Exports are affected by factors other than price. Indeed, in many sectors, price competition plays a relatively minor role in export sales. Other factors such as financing terms, product quality and reliability, servicing, awareness of market opportunities, and the motivation to explore unfamiliar and confusing foreign markets are more significant for many products. To the extent that U.S. exports can be stimulated by dealing with these factors, further decline in the value of the dollar can be avoided.

Both business and Government accord exports a relatively low priority. This reflects the historically small role of exports in

the national economy. Exports presently constitute only 6.4 percent of U.S. GNP. As a result, in the course of Government policy-making, export consequences are usually ignored or outweighed by other national objectives. Federal assistance to exporters is small and is frequently undermined by other Government actions which thwart export initiatives. By contrast, our major competitors export between 12 and 45 percent of their national output and as a consequence, give exports a much higher priority.

The low priority which most businesses place on exporting is reflected by the fact that fewer than one out of ten U.S. manufacturers is an exporter. Over half of U.S. exports are accounted for by only 100 companies. Much of U.S. business is currently not interested in exporting. Exporting is more difficult than selling at home, and too many U.S. firms do not believe exporting is worth the effort -- even when their products are priced competitively in foreign markets.

An improvement in business attitudes toward exporting could trigger an expanded export effort that would have a significant impact on the level of U.S. exports, a conclusion set forth in the 1978 OECD Economic Survey of the United States. The consensus of the agencies on the task force is that such an improved attitude could be generated by action on the part of the Administration. This is the objective of the measures recommended.

EXPORT POLICY RECOMMENDATIONS

The task force considered many measures. Fourteen are recommended for your approval, divided into two groups. The first group consists of the 12 recommendations which are essential to a comprehensive and credible export policy. The second group contains two recommendations which are not necessarily essential for an export policy aimed principally at manufactures, where the bulk of the problem lies. However, these latter two recommendations are of considerable importance, and favorable decisions on them would enhance the overall impact of the program.

A. ESSENTIAL MEASURES

5.

Together the first 12 measures constitute a comprehensive package of recommendations. This package comprises the beginnings of a national export policy which would elevate the priority of exports in Government decision making and trigger expanded export efforts by U.S. business. Each of these measures is essential. The elimination of any of them would substantially weaken the total effect, and the psychological impact would be jeopardized.

An important aspect of the package is that the whole is considerably greater than the sum of its parts. While each of the measures recommended would help to increase exports, the significance of the package in its entirety is that it reflects a basic change in attitude and a commitment that exporting will be given a higher priority in the national agenda.

The psychological impact of an export program is critical in determining its success. The program must be credible and compelling to both the business community and the exchange markets. If the program is not perceived as a serious and continuing commitment to increase exports, the business community is unlikely to make the extra effort to export, and the dollar may weaken again due to disappointment in the adequacy of the response.

The recommended package of measures constitutes a five-part program:

- A Presidential commitment to export growth as an important national objective.
- Incentives, or stimulus measures, to offset the difficulties associated with exporting and to induce companies to take advantage of the enhanced price competitiveness resulting from the recent depreciation of the dollar.
- Reduction of disincentives, to enable U.S. companies to sell abroad in markets now impaired by U.S. Government-imposed barriers; to enable U.S. companies to explore foreign markets in an environment of greater certainty; and to increase the reliability of the United States as a supplier.
- Direct Government assistance programs to help U.S. companies develop new export markets and overcome the factors which deter small and medium-size firms from exporting.
- A continuing export expansion effort to identify and address additional problems which hinder our export performance.

Other Administration initiatives already taken which will have a substantial positive effect on exports include the determined efforts for a favorable conclusion to the Multilateral Trade Negotiations; efforts to explore the capital formation and technological innovation questions which are fundamental to future productivity growth and export competitiveness; and the renewed efforts at the Summit to obtain faster economic growth abroad.

Notable among current Administration decisions related to exports is the question of mandatory application of Environmental Impact Statements to export-related Federal Government actions. The task force endorses a decision to oppose such mandatory application, and would have made this one of its recommendations were the issue not addressed in a separate decision memorandum to be submitted to you shortly. The Environmental Impact Statement requirement could have a substantial negative effect on export sales.

Costs and Benefits

A better export performance by the United States would have significant benefits. Export demand would contribute to domestic expansion, thereby stimulating the private sector and reducing the Government deficit needed to support any given level of employment and output. Stronger exports would also lessen the depreciation of the dollar that might otherwise be required to bring the U.S. current account deficit to a level that is sustainable over the long term, reducing the attendant costs in inflation and adverse reaction from foreign official holders of dollars.

This concern for exports is matched, however, with a concern that measures should have a reasonable prospect of generating an improvement of exports commensurate with their costs -- costs in terms of the budget, our international responsibilities, and in terms of other foreign and domestic policy goals.

Costs -- The measures in the basic package of recommendations involve two kinds of expenditures: increased authorizations for the Export-Import Bank, and new funding for direct export assistance by Commerce and State.

The aggregate authorization for the basic package of essential recommendations would amount to \$520 million, of which \$500 million represents new Eximbank lending authority. As Eximbank funds are repaid in full, actual net outlays would be \$20 million, before

taking into account the increased Federal tax revenues resulting from increased export activity. The two additional recommendations which are not part of the basic package could cost an added \$305 million.

Benefits -- The additional exports resulting from this package are impossible to estimate with precise numbers. Better export growth would result not only from improved incentives, expanded assistance, and an improved regulatory climate, but also from increased business confidence. All of these are subjective but extremely important factors.

The results, however, could be substantial. The intent of the package is to trigger a widespread business response toward increased exporting efforts. The extent of the response, as stated earlier, is in large part dependent upon attitudes and perception. The success of the measures, therefore, depends upon the degree to which they are regarded by business as indicative of a higher government priority toward exports. The package is balanced to maximize this perception.

We do know the opportunity for export expansion exists. One indication of this potential is the fact that our 1977 exports would have been \$13 billion higher were it not for our market share loss since 1974. Another indication is the estimated \$120 billion Middle Eastern export market related to major projects over the next five years.

While the measures recommended certainly will not cure our trade ills by themselves, the agencies feel they are worth the costs. Their effects will be additional to the stimulus to exports from the depreciation of the dollar to date, success in reducing tariff and non-tariff barriers in the MTN, success in achieving more rapid economic recovery in our principal foreign markets in developed and developing countries, reduction in our oil imports, and efforts to curtail inflation. For purposes of illustration, each \$1 billion increase in exports in 1982 could add as much as \$2 billion to GNP and \$400 million to tax revenues. In addition, as many as 30,000 export-related jobs would result.

The measures recommended would also confer an additional short-term benefit. Many people, both at home and abroad, are still not convinced of our determination to deal with our trade balance problem. Taking these actions to increase exports could in itself have a significant positive psychological influence on the value of the dollar. They would convey a clear signal to U.S. business and to foreign exchange markets. The recommendations which follow are

SCHULTZE

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

July 27, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze **CLS**
SUBJECT: Export Task Force Recommendations

Secretary Kreps has forwarded to you an analysis of our "export problem" and a package of proposed remedies. Although I am in broad agreement with most of the package, the analysis overstates both the nature of the problem and the effect of the package.

1. Our Export Problem

The Commerce memorandum implies that our exports performance has fallen flat in the last few years. In fact, our burgeoning trade deficit -- apart from oil -- is largely explained by the relative strength of the U.S. economy and the slump abroad. An indication of our export performance over time is given by our share of total exports of industrial countries, shown in Figure 1. As the Commerce report notes, our share has declined since 1974. This decline followed a rise from 1971 to 1974 in the wake of the depreciation of the dollar over the 1971-1973 period. High demand and capacity shortages abroad also contributed to the strong U.S. export performance during this period.

Taking a longer-term perspective, the U.S. export share has changed little since 1971, following a fifteen year decline. Moreover, in the last four months exports have risen strongly and the U.S. share has probably risen somewhat, although data confirming this will not be available for some time. Thus, there are signs that the recent depreciation of the dollar is beginning to have its expected effects on exports.

On top of the decline in the U.S. share of exports since 1974, slow growth of foreign economies has hurt our exports.

I draw the following conclusions from these observations:

- (1) U.S. export performance in the 1975-1977 period has been poor but we have not seen an unusual or disastrous collapse of our competitive position.
- (2) An improvement in our export performance would be desirable -- particularly to offset our oil imports, which grew more rapidly in 1976 and 1977 than elsewhere. Stronger exports would mean a stronger dollar, less inflationary pressure, and improved prospects for reducing the budget deficit while maintaining growth. But measures that would make large scale demands on the budget or that would be inconsistent with international agreements are not warranted.

2. The Role of Export Policy

The Commerce report is the fifth U.S. study since 1960 -- the others are shown by arrows in Figure 1. The effect of the policies are likely to be dwarfed by the stimulus to exports from the depreciation of the dollar to date, success in reducing tariff and non-tariff trade barriers in the MTN, a more vigorous attack on disincentives to exporting, and success in achieving a more rapid economic recovery in our principal foreign markets in developed and developing countries.

Is there likely to be a "critical mass" for export policy initiatives, beyond which we will unleash a dramatic increase in export efforts? Judging by earlier efforts, or by common sense, I think not. The recommendations should not be viewed as an all-or-nothing package. Each individual element should either be cost-effective or be eliminated.

3. Incentives

I continue to oppose export tax subsidies such as those in recommendation #2.

- o You have opposed DISC, and this would constitute a reversal of that position.
- o If we have a "study," we are simply postponing the tough decision for a few more months.
- o Such tax subsidies impose a perpetual budget cost in return for a one-time improvement in the trade balance.
- o If they are large enough and designed well enough to be effective, they are then inconsistent with our GATT obligations.
- o They are poor economic policy, for they prevent an efficient division of labor between countries.
- o They are a 180° turn from our MTN position, in which we are trying to persuade our partners to remove such subsidies.

4. Disincentives

On the other hand, I feel that the Task Force did not address with sufficient force recommendations to reduce or eliminate several existing disincentives to export activity (recommendations #6-10). They are major barriers to increased exports. I recognize the political importance of many of these issues. But I feel that it is extremely important that we evaluate the full economic costs inherent in anti-export policies such as the Jackson-Vanik amendment, anti-boycott legislation, the illicit payments legislation, the uncertainties and consequences associated with our regulatory policies, the use of export controls as a foreign policy tool, and other similar policies.

A recent example was Eximbanks' refusal, on the basis of a recommendation from the State Department, to provide credits to finance \$268 million of hydroelectric power equipment to Argentina. To the best of my knowledge, there is no regular procedure for weighing the political and economic costs and benefits of such actions.

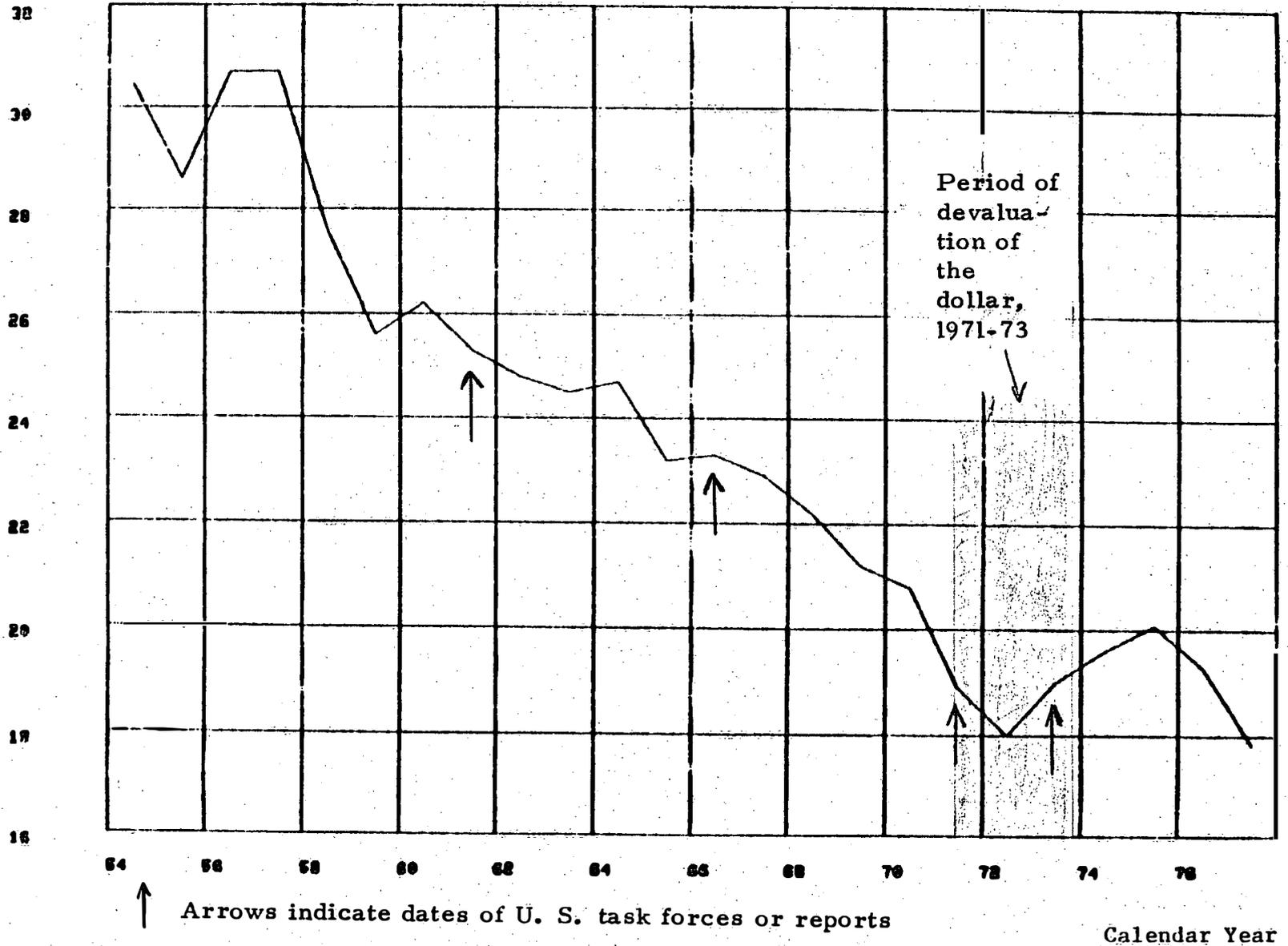
5. Recommendations

I recommend that you accept the Export Task Force basic package (#1-12) with the following exceptions:

- (1) that you continue to oppose any export tax incentive or study thereof.
- (2) that you request a PRC study of the disincentive effects of various government policies, with a report to you on recommendations.

Figure 1: U.S. Share of Industrial Countries' Total Exports

U.S. Total Exports as
% of Industrial Countries'
Total Exports



SOURCE: INTERNATIONAL MONETARY FUND

MCINTYRE



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

2 AUG 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: James T. McIntyre, Jr. *J. McIntyre*

SUBJECT: National Export Policy

The Export Policy Task Force decision memorandum from Juanita Kreps requests your approval of fourteen initiatives that are intended as a basis for a new national export policy. I have serious reservations about the general approach and many of the specific recommendations of the paper.

General Approach. The paper emphasizes that increased exports would benefit the United States. Everyone can agree that improved export performance would be desirable. Higher exports would assist in bringing the U.S. current account deficit to a level that could be sustained without reducing output and employment. This would reduce the pressure for further dollar depreciation with its attendant costs in inflation and strains on the international monetary system.

Proposals to generate increased exports should be the result of a balanced consideration of both the likely benefits and costs. The Task Force has given some consideration to likely benefits and costs, and in doing so has modified significantly many of the original agency proposals. I am convinced, however, that the report still overstates the effect of the incentive proposals in generating additional exports. The sum of the proposals does not warrant the title "national export policy," and their weakness as such would be readily apparent. If you were to announce these proposals as your export policy, you would in effect be deciding to give exports no significantly higher priority than they have presently.

The major recommendations involving increased incentives to U.S. exporters (e.g., through a modified DISC, increases in Eximbank lending, or starting a new agricultural export credit program) are very costly in budgetary terms. Furthermore, there are fundamental disagreements over their likely effectiveness in stimulating additional exports because much of the effort may merely substitute for private initiatives or may stimulate offsetting foreign government counter-measures. Proposing a more effective substitute for DISC, for example, could make it more difficult to reduce the foreign subsidies we are trying to abolish in the MTN. A new agricultural export credit

program would invite retaliation by other grain exporters. Finally, in the current fiscal environment, increased export promotion expenditures will also necessitate painful budget cuts elsewhere thereby negating any net stimulative effect on employment or the GNP.

The other major group of recommendations involves reductions in some of the current disincentives to exports. I would personally recommend most of these proposals, but I do not believe that the report adequately discusses the desirability of reducing these disincentives, nor does the report adequately describe how removal of these disincentives may substantially harm other more important national policies. The report does not address some other more controversial but equally important disincentives, such as antiboycott legislation and arms sales ceilings. The business community is clearly concerned with the cumulative impact of a whole series of policies each of which hinders exports and in the aggregate are seriously undermining the ability of U.S. firms to compete as reliable exporters. On the other hand, significant modifications of the policies which created these disincentives (export controls, arms sales ceilings, antiboycott and illicit payment legislation, Jackson-Vanik amendment) would probably be unacceptable to us and to Congress. A much more systematic evaluation of these disincentives than they have received to date is highly desirable, and some modification or clarification of current policies may be warranted. In any case, we should examine such options.

Finally, the memorandum recommends several small increases in Commerce and Agriculture Department budgets for programs that provide assistance to exporters. These programs are essentially irrelevant to the large, sophisticated exporters who would have to provide the bulk of any export increases. These programs could be helpful to smaller, new-to-export firms who are not aware of export opportunities or lack the expertise to exploit them. I strongly believe that we could get more benefit politically and substantively by publicly refocusing the existing Department of Commerce programs than by merely increasing funding levels by \$20 million.

Recommendation

Because the contents of the report have been widely discussed in the press, outright rejection of most of the proposals would be interpreted as an "anti-export" decision. Although this would be an inaccurate charge, it might discourage some potential exporters and have an unsettling impact on foreign exchange markets. Accordingly, I recommend that the Administration take the following position on the report.

1. Because of the extremely tight fiscal outlook for 1980, you are not prepared to announce any increased funding for export promotion now; the recommendations of the task force will be considered during the fall budget reviews when all competing needs can be considered.

2. The task force report usefully highlights the legitimate concern in the business community over the impact of numerous disincentives to exports. Therefore, the Administration will undertake an intensified review of all potential impediments to exports including a number of policies not examined by the task force (e.g., anti-boycott legislation, arms sales ceilings). We doubt that significant changes are possible in many, or even any, of current policies but we want to withhold judgment until we have systematically undertaken a net assessment of all the conflicting objectives. This assessment would be under White House auspices because of the major policy issues and tradeoffs involved.
3. Rather than create still another committee, we will attempt to make the existing President's Export Council effective; its first task would be to assist in the review of export disincentives.

ADDITIONAL
STAFF COMMENTS

ADDITIONAL STAFF COMMENTS

Watson & Congressional Liaison: no comment.

Blumenthal, Strauss, Wexler & NSC concur.

Wexler and Henry Owen suggest that while the proposed export policy is only a modest beginning, it be announced with some fanfare.

NSC would amend recommendation #7 (page 12 of Kreps memo) to stress that there may still be overriding foreign policy reasons to exercise controls. Although alternative supply is important, many controls based on 'foreign policy considerations' have nothing to do with the question of relative availability (e.g., UN embargo on Rhodesia).

Strauss makes these points:

- While the program "leaves much to be desired," he supports it, because "we need something now."
- The recommendations do not hinder the multilateral trade negotiations.
- "Your coming forward with a program to implement Point 20 of the Bonn Declaration... (signals) the importance we attach to Summit commitments."
- "I think the amounts here are so small when measured against the importance of presenting a credible package that the (economic and budgetary) costs should be borne."
- Business, Congress and the press must be convinced that the package is "a good beginning -- a foundation upon which to build our export drive."

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8.

set forth in a significantly compressed form without extensive discussion because of the consensus which has developed around the package. Specific exceptions are noted in the discussion of individual recommendations.

1. Presidential Commitment. In view of the psychological benefits accruing from a visible Presidential commitment to exports as a high national priority, your involvement is necessary to a national export policy. Upon your approval of other elements in this package, the Department of Commerce, in coordination with appropriate White House staff, would be directed to develop the necessary announcements and activities, including the preparation of steps which could be implemented immediately. This measure would help supply needed direction to the Executive Branch and the Congress and would instill confidence in the business community.

All agencies are in favor.

Yes No Comment _____

You take the lead, emphasizing my approval.
Rafshorn can determine level of my involvement

2. Export Tax Incentive. The issue of an export tax incentive is a presentational as well as a substantive matter. Business views an export tax incentive, not necessarily the DISC, as an essential element of a credible export policy. However, the need must be balanced against the cost-effectiveness of such an incentive and the necessity of upholding U.S. obligations pursuant to GATT and OECD guidelines on subsidies.

Administration opposition to the DISC would be reaffirmed as an ineffective and costly instrument. At the same time, the Administration would state that there is no philosophical objection to a tax incentive per se. The Secretaries of Treasury and Commerce would be directed to take under continuing review the need for an effective tax incentive to help the exporting community. This review must, of course, take into account cost-effectiveness, international economic policy implications, practices of other nations, and alternatives to tax incentives. The Special Trade Representative would be directed to determine the relationship of any incentive to our international trade obligations and objectives, particularly in the MTN.

This approach would hold out the possibility, consistent with the Administration's position on DISC, of finding a

more effective way to assist business in counteracting the difficulties associated with exporting and inducing them to undertake efforts necessary to convert opportunities into actual export sales.

The alternatives to this option are: (1) continued opposition to the DISC with no possibility of proposed modifications or replacement; or (2) reversal of the Administration's position on the DISC. Either alternative is likely to result in permanent retention of the present DISC.

All agencies are in favor except CEA and OMB, which urge continued opposition to the DISC.

Yes _____

No

Comment _____

*I oppose DISC but
am willing to make a
cautious statement.
no study*

- 3. Increased Export-Import Bank Funding and Flexibility. The availability of financing is an important factor in the ability to compete abroad. The Export-Import Bank is a vital source for this financing. You have already approved an FY 1980 budget mark of \$3.9 billion, a \$300 million increase in direct loan authority over the FY 1979 \$3.6 billion level. The Task Force member agencies recommend an overall \$500 million increase in direct loan authority in FY 1980 to \$4.1 billion. This larger amount would enable Eximbank to offer increased official credits to finance capital goods exports that the private sector is unable to finance. It would also permit greater Eximbank flexibility in matching foreign government-backed credits, consistent with U.S. obligations under the International Arrangement on officially supported export credits, particularly in the capital goods and developing country markets where financing is important.

The associated costs and export consequences of the proposed authorization increment are indicated in the table below. In the longer-term there is no cost to the Government, because principal and interest are repaid to Eximbank.

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EXIMBANK FUNDING OPTION

	(millions of dollars)		
	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>
Total Authorization <u>1/</u>	\$4100	\$4510	\$4960
Incremental Increase <u>1/</u>	500	550	600
Budget Outlays <u>2/</u>	25	180	300
Exports Supported <u>3/</u>	35	260	430

- 1/ The FY 1981-82 authorization levels are indicative and assume an annual 10 percent increase in direct loan authority.
- 2/ The budget outlay is assumed to be 5 percent of the authorized increase the first year, 30 percent the second year and 20 percent the third year. Additional associated loan disbursements occur in later years.
- 3/ This option assumes an Exim loan of 70 percent of the export price. An authorization level increase of \$500 million would support \$715 million of exports, some of which will be shipped and paid for (with resulting budget outlay) after FY 1982. Additional exports (those that would otherwise not occur) would be less than the total exports supported.

All agencies are in favor except OMB, which reserves comment at this time.

Yes No Comment _____

4. Resolution of Method of Taxation of Americans Abroad (Section 911). The Congress is expected to resolve shortly the issue of taxation of Americans employed abroad. Senate legislation would give tax relief to Americans working in high cost areas, living in construction camps or similar housing, etc., thereby removing the present tax disincentive to working abroad. While the Senate version is more liberal than the 1976 Tax Reform Act amendment or an earlier Administration proposal, it is closer to the Administration proposal and less costly than the expected House version.

The Administration would support the Senate version; it could cost approximately \$310 million, as opposed to the \$245 million cost estimated for the Administration proposal.

11.

By contrast, the House version would cost approximately \$590 million. In backing the Senate version, the Administration would have greater leverage during the House-Senate Conference. Moreover, the Administration would gain credit for resolution of this issue.

A reasonable compromise and resolution of this issue would eliminate the existing business uncertainty and increase the competitiveness of U.S. companies' overseas bids and sales efforts. The present uncertainty is causing U.S. companies to bring home their overseas American contract consultants and engineers. That has the effect of diminishing the level of purchases made from the United States, since foreign engineers and consultants tend to specify products made in their own countries, whereas U.S. personnel tend to order from the United States.

All agencies are in favor except OMB.

Yes

No

Comment _____

Let's stick to \$245 mil. proposal. We may compromise, but we also may have to veto bill.

- 5. Reordered Priority of Small Business Incentives. SBA would be directed to target up to \$100 million, about 3 percent of its current authorization, for loans under its guarantee program to exporters and potential exporters, consistent with GATT and OECD limitations on subsidies and export credits. No new funds would be required. Small exporting firms meeting SBA's qualifications would be eligible for loan guarantees totaling up to \$500,000 to meet needs for expanded production capacity and to ease cash flow problems involving overseas sales or initial marketing expenses. These guarantees are presently available to small business exporters but not on a priority basis.

All agencies are in favor.

Yes

No

Comment _____

- 6. Export Consequences of Regulations. The heads of all departments and agencies would be directed to take into account and weigh as a negative factor the possible adverse effects on U.S. exports of their major administrative and regulatory actions that have significant export consequences. They would also be requested to report back to the Regulatory Analysis Review Group in three months on

their progress in identifying and reducing such negative export effects where possible, consistent with other legal obligations. Where agencies determine that their statutes would not permit them to take possible negative export effects into account in framing their regulations or taking administrative action, legislation could be considered to remedy this limitation. The CEA would be directed to consider export consequences as part of the "Regulatory Analysis Program." A request would also be issued to the independent regulatory agencies.

This recommendation would inject better balance into Government decisions on issues with potentially adverse export consequences. The export climate would improve as the business community perceived a growing Governmental awareness of the export consequences of its actions.

All agencies are in favor.

Yes No Comment _____

7. Shift in Policy Regarding Use of Export Controls as a Foreign Policy Tool. The Departments of Commerce, State, Defense, and Agriculture would be directed to weigh export consequences as a factor, along with other factors, when considering the use of export controls for foreign policy purposes. Particular Weight would be given to whether the U.S. goods in question are also available from countries other than the United States.*

This recommendation would help provide both U.S. sellers and foreign buyers with greater certainty and predictability as to the application of foreign policy export controls. It would help reform what is regarded by some as an erratic, unpredictable and unfair system which often penalizes U.S. exporters without depriving the potential foreign purchaser of goods or services.

All agencies are in favor except NSC and State, which are still considering the issue.

Yes No Comment _____

8. Guidelines Clarifying the Foreign Corrupt Practices Act.
The Department of Justice, in consultation with the SEC and

*DPS recommends deleting this sentence. NSC recommends adding the phrase, "recognizing that nonetheless there may be overriding foreign policy reasons for exercising controls."

13.

Department of Commerce, would be directed to issue guidelines clarifying the requirements of the Foreign Corrupt Practices Act. That statute directly or indirectly generally prohibits payments to foreign officials for the purpose of securing business.

There are a number of "gray areas" where the application of the law is uncertain. These uncertainties cause business to forego export opportunities rather than risk allegations of violating the law, particularly if export orders are a small proportion of the firm's business. This measure would reduce the business community's uncertainty about the application of specific provisions of the new law and about the prospective enforcement policies of Justice. The psychological benefit of this measure is expected to result in increased exports.

Precedents for such guidelines include the Justice Department's Antitrust Guide for International Operations and the Commerce Department's Anti-Boycott Regulations.

All agencies are in favor except Justice, which opposes because of the perceived limitation on its prosecutorial discretion. However, the experience with the new Anti-Boycott Regulations indicates that such guidance can be provided without adverse enforcement consequences.

Yes No Comment _____

*Some guidelines, as
considered appropriate
by Justice. No loopholes
for bribery*

9. Antitrust Business Review Procedure and Business Education Programs. The Department of Justice would be directed to expedite its existing Business Review Procedure process further to insure prompt response to business requests for clarification of international antitrust issues. This measure would help relieve the persistent belief in the business community that the U.S. antitrust laws are a serious impediment to doing business abroad. A joint Commerce-Justice educational campaign would also be initiated to ease business uncertainty. Finally, a business advisory panel would be established to work with the National Commission for the Review of Antitrust Laws and Procedures. As presently constituted, the Commission does not include any business representatives.

All agencies are in favor. However, Justice believes that this proposal is unnecessary because it feels its current Business Review Procedures are already sufficient.

Yes No Comment _____

10. Expansion of Webb-Pomerene Exemption to Include Services.

The Webb-Pomerene Act presently provides an exemption to the Sherman Act for U.S. firms forming a consortium for exports of goods. Legislation would be proposed amending the Act to include non-financial services within the statutory exemption. Similar legislation has been proposed recently by Senator Inouye and Congressman Jenrette.

Exporters of services, particularly construction and engineering services, would have greater assurances that their joint international efforts do not violate U.S. antitrust laws and would be more likely to form U.S. consortia to bid on large foreign projects in competition with foreign consortia. The total contract value for major projects abroad in 1978-82 is estimated in excess of \$500 billion. By reducing uncertainty about the applicability of U.S. antitrust laws to joint efforts, the U.S. share of those projects could increase. Although Justice notes that this exemption could be unnecessary since the majority of such transactions may be within existing law, current uncertainty is a major problem for business.

All agencies are in favor except Justice, OMB, and FRB, which regard the proposal as unnecessary and as undermining both our vigorous antitrust stance and our traditional international posture opposing export cartels. Agencies supporting this proposal note that they fully back U.S. efforts in international fora to strengthen the antitrust practices of other nations. At the same time, they want to minimize the disadvantages faced by U.S. companies in the interim negotiating period, consistent with the intent and application of U.S. antitrust laws.

Yes No Comment _____

*Justice may wish to
clarify situation as
it now exists*

11. Commerce and State Department Export Assistance Programs.

OMB would be instructed to allocate an additional \$20 million in annual resources and, as necessary, accompanying personnel ceiling increases to State and Commerce for export

15.

marketing assistance. Commerce's export promotion budget in FY 1978 was \$28 million, and State's approximately \$19 million. The United States presently has proportionally the smallest export promotion program of all the industrialized nations. The increment would affect four areas, by:

1. Providing better information and communication through modern, computer-based technology to make information on potential exporters, foreign buyers, and trade opportunities instantly available to U.S. exporters and potential foreign customers.
2. Facilitating market entry by new exporters through a program to aid associations and small companies in meeting initial export marketing costs, with repayment based on export success.
3. Responding to special short-term market opportunities, providing one-stop assistance to overcome export barriers particularly on major projects, and intensifying marketing efforts to exploit large new markets.
4. Reaching new exporters through promotional campaigns, state and city export expansion projects, and projects targeted to minority businesses.

The expanded staffing necessary to carry out the enhanced level of activity will also require an increase in commercial personnel abroad, which would be inconsistent with the ongoing reduction in embassy personnel taking place under the MODE control system.

This proposal would reverse the trend which has led to a 14 percent reduction in real export assistance resources over the past 7 years due in large part to the theory that export assistance was unnecessary, because floating exchange rates would automatically smooth out trade imbalances.

All agencies are in favor except OMB.

Yes No Comment _____

*Agencies absorb
this to maximum
degree*

12. Longer-Term Export Expansion Effort. A fourteen member group, the Committee on Export Expansion, would be established to oversee implementation of the recommendations

in this package and continue the efforts begun by the interagency task force. It would replace the President's Export Council (PEC), a private sector advisory group. The PEC has not been active in recent years; it is not an effective mechanism to link private sector concerns with all Government agencies involved in exporting.

Membership -- Commerce would chair the Committee, with membership being drawn from Commerce, State, Treasury, Labor, STR, Eximbank, SBA, and Agriculture; there would be six private sector members representing business and labor. No additional funding would be required, and Committee staff would be supplied by member agencies.

Problems Addressed -- The Committee would address export problems of particular industrial sectors, such as high technology industries, fisheries, transportation, services including tourism, food processing, etc. It would also develop a longer-term export expansion strategy, identifying potential problems affecting U.S. competitiveness in overseas markets. These include issues such as productivity and research and development, as well as shorter-term issues such as excessive and costly export documentation, unnecessary delays in export licensing, and the need for embassy assistance to ensure that U.S. firms are not penalized in lost sales for obeying U.S. laws such as the Foreign Corrupt Practices Act. In addition, the Committee would be required to transmit an annual report to the President through the EPG on efforts made by U.S. Government agencies to improve or remove obstacles to U.S. export performance. The report would be made public.

Creation of the Committee would help raise the priority placed on exports by the member agencies and help them focus attention on obstacles to exporting, a function similar to that performed in the urban area by the Interagency Coordinating Committee on Urban Policy. It would also provide both business and labor with an improved avenue for high-level contact with the Administration on export matters.

OMB believes this proposal would duplicate related efforts by the Reorganizational Project Staff, which is reviewing the economic analysis and policy machinery of the Federal Government. Favoring agencies note that the Committee would replace a generally ineffective organization (PEC), and that the on-going reorganization study does not cover export

17.

promotion issues. Moreover, it is essential that the first steps requested by the export policy package of recommendations be followed by efforts in a wide variety of other areas in an effective, continuing fashion. Otherwise the export policy package may be seen as a good beginning but insufficient to the long-term task.

All agencies are in favor except OMB, CEA, Justice and FRB.

Yes _____ No Comment _____

*PEC might
be revised.*

B. ADDITIONAL MEASURES

While not essential to increasing exports of manufactures, the two measures which follow are important to our goal of improving the U.S. balance of trade.

13. Agricultural Financing and Assistance.

- A. Legislation would be proposed to extend the 3-year limit on Commodity Credit Corporation financing for medium-term (3 to 10 years) credit for breeding animals and for purchases of agricultural commodities pursuant to satisfactory international grain agreements and other conditions acceptable to the United States. The first year cost following the signing of an international wheat agreement is difficult to predict. It could reach \$150-300 million and \$45-85 million each year thereafter, although the actual level of outlays would be discretionary and controlled through the budget process. Similar legislation has already been introduced in the Congress.

This measure would help increase U.S. agricultural exports to countries whose purchasing ability is limited by the lack of adequate credit. The grain financing could trigger fears in other grain-exporting countries that the United States is moving toward a general program of medium-term agricultural credits, and thereby stimulate an agricultural credit race. To avoid this

18.

danger the program would not be undertaken without consultation with such countries, and the enabling legislation would strictly limit the implementation of such a program consistent with our international obligations.

All agencies are in favor except OMB, CEA, FRB and Eximbank.

Yes _____ No Comment _____

B. Beginning in FY 1980, \$5 million would go to export marketing assistance activities conducted by the Department of Agriculture for:

- establishment of foreign agricultural trade offices in key foreign countries to provide one-stop export service and facilitate buyer-seller contacts and communications. Trade offices would be attached to, but housed separately from, the U.S. embassy agricultural staff.
- assessment of U.S. agricultural transportation system and development of measures to reduce export shipping delays and enhance U.S. agricultural delivery capacity.

Expanded staffing overseas would be necessary to carry out the increased level of activity. Agricultural trade expansion legislation in process includes a provision for such trade offices. Administration support for this initiative would be consistent with stated Administration export initiatives.

All agencies are in favor except State, OMB, and CEA. State opposes the establishment of separate overseas agricultural trade offices as contrary to the unified foreign service concept.

Yes _____ No Comment Administrative action now being taken - better than legislation.

14. Multilateral Discussion of Compensatory Defense Agreements. In consultation with Defense, Treasury, Commerce, STR, CEA, and OMB, State would be directed to consider undertaking multilateral consultations on the adverse impact of defense offset sales agreements and to seek their reduction through the formulation of internationally agreed guidelines on the terms for future agreements. While these consultations

could achieve more equitable, competitive arrangements and could shelter the U.S. economy from required purchases of imports in exchange for arms exports, they would be lengthy at best.

It is already DOD policy not to enter into compensatory offset agreements which obligate the DOD to make specific offsetting purchases. The new element in the proposal is the possible establishment of international guidelines affecting transactions in which U.S. firms are often subjected to economic terms imposed by foreign governments. This would not be an extension of U.S. regulation, in that the U.S. Government is already involved in these seemingly private transactions through the export licensing procedure.

All agencies are in favor.

Yes No Comment _____


Juanita M. Kreps

WASHINGTON

DATE: 24 JUL 78

FOR ACTION: STU EIZENSTAT

FRANK MOORE (LES FRANCIS) *nc*

JACK WATSON *NO - pol talk*

ANNE WEXLER *attached*

ZBIG BRZEZINSKI *will comment in SAFE 7/24*

JIM MCINTYRE *Pass on 7/31*

CHARLIE SCHULTZE *5:00 PM today*

HAMILTON JORDAN

INFO ONLY: THE VICE PRESIDENT

JODY POWELL

Will have folder

Sindhan comment on Friday 11/4 - 1:40 PM

ATTACHED
8/13/78
8/12 AM
8/13 AM

Blumenthal + Frances comments attached

7-28 by overhead from Stu

w/sc
to us today
Stu

SUBJECT: KREPS MEMO RE NATIONAL EXPORT POLICY

+++++
+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +
+ BY: 1200 PM WEDNESDAY 26 JUL 78 +
+++++

ACTION REQUESTED:

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

Bell - They (Commerce) are sending over a one page memo on June trade figures which will be in at the end of today. Hold for that

THE WHITE HOUSE

WASHINGTON

July 26, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: ANNE WEXLER 

SUBJECT: Secretary Kreps' Memorandum on
National Export Policy

Without making any substantive comments on the recommendations, it is important that any announcement stress that the actions being taken are only a beginning of a national effort to expand our exports within the constraints of our agreements with our treaty partners. You should take credit for having established the first national policy encouraging exports and the mechanism for comprehensively dealing with export policy. In this regard the proposed 14 member committee on export expansion is very important to emphasize your commitment in this area.

Incidentally, the issue on which I hear from almost every businessman is taxation of American's employed abroad--the Section 911 issue. If the Congress is going to resolve this issue, we would show understanding and responsiveness to the business community by being out front on a reasonable compromise.

Finally, the announcement should be put in the context of carrying through on our Bonn commitments.



MEMORANDUM FOR THE PRESIDENT

SUBJECT: National Export Policy

On April 11, you directed me to chair an interagency task force to recommend measures to increase U.S. exports. Assistant Secretary Frank A. Weil chaired the task force's executive committee which reported to me. This memorandum summarizes for your consideration the recommendations developed by the fifteen member group.^{1/}

Slow export growth has been an important, but inadequately addressed, problem. The problem did not start during this Administration. The seeds were planted a long time ago. The problem, however, has continued to grow, and its effect on the trade balance has become more evident.

A cohesive package of recommendations is proposed which would constitute the beginnings of a national export policy and would be consistent with point 20 of the Bonn Summit Declaration. There is no quick fix for the export problem, but an effective start must be made. The problem has been approached unsuccessfully four times by various Administrations since 1962. The proposals in this package are an important and necessary first step, but a continuing effort will be needed.

In large part, export success depends upon the attitude and motivation of business, and the psychological factors in this area can be almost as important as the substance of the recommendations. Any belief that the Administration is not sufficiently concerned about exports must be reversed.

^{1/} The agencies involved in the discussions were the Departments of State, Treasury, Agriculture, Justice, Commerce, Labor and Defense; as well as Federal Reserve, STR, OMB, CEA, NSC, DPS, Eximbank, and SBA.

Last year the United States suffered a record \$31 billion trade deficit, and most observers anticipate continued large deficits assuming present economic policies continue. Large imbalances could persist even with implementation of the Administration's energy and anti-inflation programs, despite increased U.S. price competitiveness resulting from changes in exchange rates to date.

Oil imports are a major factor in our deficit. However, so much attention has been paid to oil imports that we have failed to address our other fundamental trade problem: slow export growth, particularly of manufactured goods, and a steadily deteriorating U.S. position in total world trade.

The Export Problem -- Over the past two decades, U.S. exports have grown at only half the rate of other industrial nations. The problem has worsened during the last several years. Adjusted for inflation, real U.S. exports have shown virtually no growth in more than three years; they have contributed nothing to growth in real GNP, employment, or real income since 1974. Our competitors, by contrast, have managed a real export growth rate (even excluding their exports to the United States) of nearly 4 percent per year since 1974 despite slow worldwide economic growth. Consequently, the United States has been losing its share of world markets. Had the United States maintained the same share of industrialized country exports that it had in 1974, U.S. exports in 1977 would have been \$13 billion larger.

The mainstays of the U.S. export position are agricultural goods (\$24 billion last year) and manufactured goods (\$80 billion). The problem is particularly severe for manufactures, which are two-thirds of our exports. The volume of agricultural exports last year was up 16 percent from 1974, but the volume of U.S. manufactured goods exports has actually fallen since 1974. In 1976 we had a \$12 billion surplus in manufactures trade. That fell to a \$3 billion surplus in 1977. Thus far in 1978, manufactures trade is in deficit at an annual rate of \$12 billion.

Improving the Current Account -- In the absence of a further dollar decline, there are basically two ways to improve the non-oil current account in addition to the energy and anti-inflation efforts already underway: non-price measures to reduce imports or measures to increase exports.

Imports can be reduced either by slowing the U.S. economy in order to lessen the demand for foreign goods or by adopting a much more

restrictive import policy. However, the reduction in economic growth necessary to cut imports significantly would result in a serious recession and increased unemployment. A full one percent reduction in GNP, for example, would reduce imports by \$3 billion at most. A highly protectionist policy, on the other hand, would aggravate inflation, abrogate U.S. international obligations, and invite almost certain retaliation.

It is, therefore, far preferable to deal with the non-oil trade problem through increased exports rather than by imposing barriers to imports or slowing U.S. economic growth. The agencies responsible for economic policy are unanimous in recommending that the U.S. Government should reduce the major disincentives to exports posed by Federal laws and regulations. There is also general agreement that affirmative Government incentives and assistance for exports should be expanded.

Reliance should not be placed on changes in the value of the dollar. A cheaper dollar does help improve the trade balance by lowering the price of U.S. exports and raising the price of U.S. imports. A rough rule of thumb is that a one percent decline in the value of the dollar is necessary to improve the trade balance by \$1 billion at an annual rate, after a two-year lag.

The problem with dollar depreciation is that it runs serious risks with which you are familiar, including increased private capital outflows that would magnify the decline of the dollar; depressed stock market conditions; potential increases in OPEC oil prices; increased inflation and, in general, difficulty in carrying out our foreign economic policy.

Non-Price Factors -- Improvements in relative prices can and should be supplemented by selective incentives and assistance designed to overcome business reluctance to explore export opportunities and correct for imperfections in private markets. Exports are affected by factors other than price. Indeed, in many sectors, price competition plays a relatively minor role in export sales. Other factors such as financing terms, product quality and reliability, servicing, awareness of market opportunities, and the motivation to explore unfamiliar and confusing foreign markets are more significant for many products. To the extent that U.S. exports can be stimulated by dealing with these factors, further decline in the value of the dollar can be avoided.

Both business and Government accord exports a relatively low priority. This reflects the historically small role of exports in

the national economy. Exports presently constitute only 6.4 percent of U.S. GNP. As a result, in the course of Government policy-making, export consequences are usually ignored or outweighed by other national objectives. Federal assistance to exporters is small and is frequently undermined by other Government actions which thwart export initiatives. By contrast, our major competitors export between 12 and 45 percent of their national output and as a consequence, give exports a much higher priority.

The low priority which most businesses place on exporting is reflected by the fact that fewer than one out of ten U.S. manufacturers is an exporter. Over half of U.S. exports are accounted for by only 100 companies. Much of U.S. business is currently not interested in exporting. Exporting is more difficult than selling at home, and too many U.S. firms do not believe exporting is worth the effort -- even when their products are priced competitively in foreign markets.

An improvement in business attitudes toward exporting could trigger an expanded export effort that would have a significant impact on the level of U.S. exports, a conclusion set forth in the 1978 OECD Economic Survey of the United States. The consensus of the agencies on the task force is that such an improved attitude could be generated by action on the part of the Administration. This is the objective of the measures recommended.

EXPORT POLICY RECOMMENDATIONS

The task force considered many measures. Fourteen are recommended for your approval, divided into two groups. The first group consists of the 12 recommendations which are essential to a comprehensive and credible export policy. The second group contains two recommendations which are not necessarily essential for an export policy aimed principally at manufactures, where the bulk of the problem lies. However, these latter two recommendations are of considerable importance, and favorable decisions on them would enhance the overall impact of the program.

Other Administration initiatives already taken which will have a substantial positive effect on exports include the determined efforts for a favorable conclusion to the Multilateral Trade Negotiations; efforts to explore the capital formation and technological innovation questions which are fundamental to future productivity growth and export competitiveness; and the renewed efforts at the Summit to obtain faster economic growth abroad.

Notable among current Administration decisions related to exports is the question of mandatory application of Environmental Impact Statements to export-related Federal Government actions. The task force endorses a decision to oppose such mandatory application, and would have made this one of its recommendations were the issue not addressed in a separate decision memorandum to be submitted to you shortly. The Environmental Impact Statement requirement could have a substantial negative effect on export sales.

Costs and Benefits

A better export performance by the United States would have significant benefits. Export demand would contribute to domestic expansion, thereby stimulating the private sector and reducing the Government deficit needed to support any given level of employment and output. Stronger exports would also lessen the depreciation of the dollar that might otherwise be required to bring the U.S. current account deficit to a level that is sustainable over the long term, reducing the attendant costs in inflation and adverse reaction from foreign official holders of dollars.

This concern for exports is matched, however, with a concern that measures should have a reasonable prospect of generating an improvement of exports commensurate with their costs -- costs in terms of the budget, our international responsibilities, and in terms of other foreign and domestic policy goals.

Costs -- The measures in the basic package of recommendations involve two kinds of expenditures: increased authorizations for the Export-Import Bank, and new funding for direct export assistance by Commerce and State.

The aggregate authorization for the basic package of essential recommendations would amount to \$520 million, of which \$500 million represents new Eximbank lending authority. As Eximbank funds are repaid in full, actual net outlays would be \$20 million, before

taking into account the increased Federal tax revenues resulting from increased export activity. The two additional recommendations which are not part of the basic package could cost an added \$305 million.

Benefits -- The additional exports resulting from this package are impossible to estimate with precise numbers. Better export growth would result not only from improved incentives, expanded assistance, and an improved regulatory climate, but also from increased business confidence. All of these are subjective but extremely important factors.

The results, however, could be substantial. The intent of the package is to trigger a widespread business response toward increased exporting efforts. The extent of the response, as stated earlier, is in large part dependent upon attitudes and perception. The success of the measures, therefore, depends upon the degree to which they are regarded by business as indicative of a higher government priority toward exports. The package is balanced to maximize this perception.

We do know the opportunity for export expansion exists. One indication of this potential is the fact that our 1977 exports would have been \$13 billion higher were it not for our market share loss since 1974. Another indication is the estimated \$120 billion Middle Eastern export market related to major projects over the next five years.

While the measures recommended certainly will not cure our trade ills by themselves, the agencies feel they are worth the costs. Their effects will be additional to the stimulus to exports from the depreciation of the dollar to date, success in reducing tariff and non-tariff barriers in the MTN, success in achieving more rapid economic recovery in our principal foreign markets in developed and developing countries, reduction in our oil imports, and efforts to curtail inflation. For purposes of illustration, each \$1 billion increase in exports in 1982 could add as much as \$2 billion to GNP and \$400 million to tax revenues. In addition, as many as 30,000 export-related jobs would result.

The measures recommended would also confer an additional short-term benefit. Many people, both at home and abroad, are still not convinced of our determination to deal with our trade balance problem. Taking these actions to increase exports could in itself have a significant positive psychological influence on the value of the dollar. They would convey a clear signal to U.S. business and to foreign exchange markets. The recommendations which follow are

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set forth in a significantly compressed form without extensive discussion because of the consensus which has developed around the package. Specific exceptions are noted in the discussion of individual recommendations.

1. Presidential Commitment. In view of the psychological benefits accruing from a visible Presidential commitment to exports as a high national priority, your involvement is necessary to a national export policy. Upon your approval of other elements in this package, the Department of Commerce, in coordination with appropriate White House staff, would be directed to develop the necessary announcements and activities, including the preparation of steps which could be implemented immediately. This measure would help supply needed direction to the Executive Branch and the Congress and would instill confidence in the business community.

All agencies are in favor.

Yes _____ No _____ Comment _____

2. Export Tax Incentive. The issue of an export tax incentive is a presentational as well as a substantive matter. Business views an export tax incentive, not necessarily the DISC, as an essential element of a credible export policy. However, the need must be balanced against the cost-effectiveness of such an incentive and the necessity of upholding U.S. obligations pursuant to GATT and OECD guidelines on subsidies.

Administration opposition to the DISC would be reaffirmed as an ineffective and costly instrument. At the same time, the Administration would state that there is no philosophical objection to a tax incentive per se. The Secretaries of Treasury and Commerce would be directed to take under continuing review the need for an effective tax incentive to help the exporting community. This review must, of course, take into account cost-effectiveness, international economic policy implications, practices of other nations, and alternatives to tax incentives. The Special Trade Representative would be directed to determine the relationship of any incentive to our international trade obligations and objectives, particularly in the MTN.

This approach would hold out the possibility, consistent with the Administration's position on DISC, of finding a

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more effective way to assist business in counteracting the difficulties associated with exporting and inducing them to undertake efforts necessary to convert opportunities into actual export sales.

The alternatives to this option are: (1) continued opposition to the DISC with no possibility of proposed modifications or replacement; or (2) reversal of the Administration's position on the DISC. Either alternative is likely to result in permanent retention of the present DISC.

All agencies are in favor except CEA and OMB, which urge continued opposition to the DISC.

Yes _____ No _____ Comment _____

3. Increased Export-Import Bank Funding and Flexibility. The availability of financing is an important factor in the ability to compete abroad. The Export-Import Bank is a vital source for this financing. You have already approved an FY 1980 budget mark of \$3.9 billion, a \$300 million increase in direct loan authority over the FY 1979 \$3.6 billion level. The Task Force member agencies recommend an overall \$500 million increase in direct loan authority in FY 1980 to \$4.1 billion. This larger amount would enable Eximbank to offer increased official credits to finance capital goods exports that the private sector is unable to finance. It would also permit greater Eximbank flexibility in matching foreign government-backed credits, consistent with U.S. obligations under the International Arrangement on officially supported export credits, particularly in the capital goods and developing country markets where financing is important.

The associated costs and export consequences of the proposed authorization increment are indicated in the table below. In the longer-term there is no cost to the Government, because principal and interest are repaid to Eximbank.

EXIMBANK FUNDING OPTION

	(millions of dollars)		
	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>
Total Authorization <u>1/</u>	\$4100	\$4510	\$4960
Incremental Increase <u>1/</u>	500	550	600
Budget Outlays <u>2/</u>	25	180	300
Exports Supported <u>3/</u>	35	260	430

- 1/ The FY 1981-82 authorization levels are indicative and assume an annual 10 percent increase in direct loan authority.
- 2/ The budget outlay is assumed to be 5 percent of the authorized increase the first year, 30 percent the second year and 20 percent the third year. Additional associated loan disbursements occur in later years.
- 3/ This option assumes an Exim loan of 70 percent of the export price. An authorization level increase of \$500 million would support \$715 million of exports, some of which will be shipped and paid for (with resulting budget outlay) after FY 1982. Additional exports (those that would otherwise not occur) would be less than the total exports supported.

All agencies are in favor except OMB, which reserves comment at this time.

Yes _____ No _____ Comment _____

4. Resolution of Method of Taxation of Americans Abroad (Section 911). The Congress is expected to resolve shortly the issue of taxation of Americans employed abroad. Senate legislation would give tax relief to Americans working in high cost areas, living in construction camps or similar housing, etc., thereby removing the present tax disincentive to working abroad. While the Senate version is more liberal than the 1976 Tax Reform Act amendment or an earlier Administration proposal, it is closer to the Administration proposal and less costly than the expected House version.

The Administration would support the Senate version; it could cost approximately \$310 million, as opposed to the \$245 million cost estimated for the Administration proposal.

By contrast, the House version would cost approximately \$590 million. In backing the Senate version, the Administration would have greater leverage during the House-Senate Conference. Moreover, the Administration would gain credit for resolution of this issue.

A reasonable compromise and resolution of this issue would eliminate the existing business uncertainty and increase the competitiveness of U.S. companies' overseas bids and sales efforts. The present uncertainty is causing U.S. companies to bring home their overseas American contract consultants and engineers. That has the effect of diminishing the level of purchases made from the United States, since foreign engineers and consultants tend to specify products made in their own countries, whereas U.S. personnel tend to order from the United States.

All agencies are in favor except OMB.

Yes _____ No _____ Comment _____

5. Reordered Priority of Small Business Incentives. SBA would be directed to target up to \$100 million, about 3 percent of its current authorization, for loans under its guarantee program to exporters and potential exporters, consistent with GATT and OECD limitations on subsidies and export credits. No new funds would be required. Small exporting firms meeting SBA's qualifications would be eligible for loan guarantees totaling up to \$500,000 to meet needs for expanded production capacity and to ease cash flow problems involving overseas sales or initial marketing expenses. These guarantees are presently available to small business exporters but not on a priority basis.

All agencies are in favor.

Yes _____ No _____ Comment _____

6. Export Consequences of Regulations. The heads of all departments and agencies would be directed to take into account and weigh as a negative factor the possible adverse effects on U.S. exports of their major administrative and regulatory actions that have significant export consequences. They would also be requested to report back to the Regulatory Analysis Review Group in three months on

Department of Commerce, would be directed to issue guidelines clarifying the requirements of the Foreign Corrupt Practices Act. That statute directly or indirectly generally prohibits payments to foreign officials for the purpose of securing business.

There are a number of "gray areas" where the application of the law is uncertain. These uncertainties cause business to forego export opportunities rather than risk allegations of violating the law, particularly if export orders are a small proportion of the firm's business. This measure would reduce the business community's uncertainty about the application of specific provisions of the new law and about the prospective enforcement policies of Justice. The psychological benefit of this measure is expected to result in increased exports.

Precedents for such guidelines include the Justice Department's Antitrust Guide for International Operations and the Commerce Department's Anti-Boycott Regulations.

All agencies are in favor except Justice, which opposes because of the perceived limitation on its prosecutorial discretion. However, the experience with the new Anti-Boycott Regulations indicates that such guidance can be provided without adverse enforcement consequences.

Yes _____ No _____ Comment _____

9. Antitrust Business Review Procedure and Business Education Programs. The Department of Justice would be directed to expedite its existing Business Review Procedure process further to insure prompt response to business requests for clarification of international antitrust issues. This measure would help relieve the persistent belief in the business community that the U.S. antitrust laws are a serious impediment to doing business abroad. A joint Commerce-Justice educational campaign would also be initiated to ease business uncertainty. Finally, a business advisory panel would be established to work with the National Commission for the Review of Antitrust Laws and Procedures. As presently constituted, the Commission does not include any business representatives.

All agencies are in favor. However, Justice believes that this proposal is unnecessary because it feels its current Business Review Procedures are already sufficient.

Yes _____ No _____ Comment _____

10. Expansion of Webb-Pomerene Exemption to Include Services.

The Webb-Pomerene Act presently provides an exemption to the Sherman Act for U.S. firms forming a consortium for exports of goods. Legislation would be proposed amending the Act to include non-financial services within the statutory exemption. Similar legislation has been proposed recently by Senator Inouye and Congressman Jenrette.

Exporters of services, particularly construction and engineering services, would have greater assurances that their joint international efforts do not violate U.S. antitrust laws and would be more likely to form U.S. consortia to bid on large foreign projects in competition with foreign consortia. The total contract value for major projects abroad in 1978-82 is estimated in excess of \$500 billion. By reducing uncertainty about the applicability of U.S. antitrust laws to joint efforts, the U.S. share of those projects could increase. Although Justice notes that this exemption could be unnecessary since the majority of such transactions may be within existing law, current uncertainty is a major problem for business.

All agencies are in favor except Justice, OMB, and FRB, which regard the proposal as unnecessary and as undermining both our vigorous antitrust stance and our traditional international posture opposing export cartels. Agencies supporting this proposal note that they fully back U.S. efforts in international fora to strengthen the antitrust practices of other nations. At the same time, they want to minimize the disadvantages faced by U.S. companies in the interim negotiating period, consistent with the intent and application of U.S. antitrust laws.

Yes _____ No _____ Comment _____

11. Commerce and State Department Export Assistance Programs.

OMB would be instructed to allocate an additional \$20 million in annual resources and, as necessary, accompanying personnel ceiling increases to State and Commerce for export

marketing assistance. Commerce's export promotion budget in FY 1978 was \$28 million, and State's approximately \$19 million. The United States presently has proportionally the smallest export promotion program of all the industrialized nations. The increment would affect four areas, by:

1. Providing better information and communication through modern, computer-based technology to make information on potential exporters, foreign buyers, and trade opportunities instantly available to U.S. exporters and potential foreign customers.
2. Facilitating market entry by new exporters through a program to aid associations and small companies in meeting initial export marketing costs, with repayment based on export success.
3. Responding to special short-term market opportunities, providing one-stop assistance to overcome export barriers particularly on major projects, and intensifying marketing efforts to exploit large new markets.
4. Reaching new exporters through promotional campaigns, state and city export expansion projects, and projects targeted to minority businesses.

The expanded staffing necessary to carry out the enhanced level of activity will also require an increase in commercial personnel abroad, which would be inconsistent with the ongoing reduction in embassy personnel taking place under the MODE control system.

This proposal would reverse the trend which has led to a 14 percent reduction in real export assistance resources over the past 7 years due in large part to the theory that export assistance was unnecessary, because floating exchange rates would automatically smooth out trade imbalances.

All agencies are in favor except OMB.

Yes _____ No _____ Comment _____

12. Longer-Term Export Expansion Effort. A fourteen member group, the Committee on Export Expansion, would be established to oversee implementation of the recommendations

in this package and continue the efforts begun by the interagency task force. It would replace the President's Export Council (PEC), a private sector advisory group. The PEC has not been active in recent years; it is not an effective mechanism to link private sector concerns with all Government agencies involved in exporting.

Membership -- Commerce would chair the Committee, with membership being drawn from Commerce, State, Treasury, Labor, STR, Eximbank, SBA, and Agriculture; there would be six private sector members representing business and labor. No additional funding would be required, and Committee staff would be supplied by member agencies.

Problems Addressed -- The Committee would address export problems of particular industrial sectors, such as high technology industries, fisheries, transportation, services including tourism, food processing, etc. It would also develop a longer-term export expansion strategy, identifying potential problems affecting U.S. competitiveness in overseas markets. These include issues such as productivity and research and development, as well as shorter-term issues such as excessive and costly export documentation, unnecessary delays in export licensing, and the need for embassy assistance to ensure that U.S. firms are not penalized in lost sales for obeying U.S. laws such as the Foreign Corrupt Practices Act. In addition, the Committee would be required to transmit an annual report to the President through the EPG on efforts made by U.S. Government agencies to improve or remove obstacles to U.S. export performance. The report would be made public.

Creation of the Committee would help raise the priority placed on exports by the member agencies and help them focus attention on obstacles to exporting, a function similar to that performed in the urban area by the Interagency Coordinating Committee on Urban Policy. It would also provide both business and labor with an improved avenue for high-level contact with the Administration on export matters.

OMB believes this proposal would duplicate related efforts by the Reorganizational Project Staff, which is reviewing the economic analysis and policy machinery of the Federal Government. Favoring agencies note that the Committee would replace a generally ineffective organization (PEC), and that the on-going reorganization study does not cover export

promotion issues. Moreover, it is essential that the first steps requested by the export policy package of recommendations be followed by efforts in a wide variety of other areas in an effective, continuing fashion. Otherwise the export policy package may be seen as a good beginning but insufficient to the long-term task.

All agencies are in favor except OMB, CEA, Justice and FRB.

Yes _____ No _____ Comment _____

B. ADDITIONAL MEASURES

While not essential to increasing exports of manufactures, the two measures which follow are important to our goal of improving the U.S. balance of trade.

13. Agricultural Financing and Assistance.

- A. Legislation would be proposed to extend the 3-year limit on Commodity Credit Corporation financing for medium-term (3 to 10 years) credit for breeding animals and for purchases of agricultural commodities pursuant to satisfactory international grain agreements and other conditions acceptable to the United States. The first year cost following the signing of an international wheat agreement is difficult to predict. It could reach \$150-300 million and \$45-85 million each year thereafter, although the actual level of outlays would be discretionary and controlled through the budget process. Similar legislation has already been introduced in the Congress.

This measure would help increase U.S. agricultural exports to countries whose purchasing ability is limited by the lack of adequate credit. The grain financing could trigger fears in other grain-exporting countries that the United States is moving toward a general program of medium-term agricultural credits, and thereby stimulate an agricultural credit race. To avoid this

danger the program would not be undertaken without consultation with such countries, and the enabling legislation would strictly limit the implementation of such a program consistent with our international obligations.

All agencies are in favor except OMB, CEA, FRB and Eximbank.

Yes _____ No _____ Comment _____

B. Beginning in FY 1980, \$5 million would go to export marketing assistance activities conducted by the Department of Agriculture for:

-- establishment of foreign agricultural trade offices in key foreign countries to provide one-stop export service and facilitate buyer-seller contacts and communications. Trade offices would be attached to, but housed separately from, the U.S. embassy agricultural staff.

-- assessment of U.S. agricultural transportation system and development of measures to reduce export shipping delays and enhance U.S. agricultural delivery capacity.

Expanded staffing overseas would be necessary to carry out the increased level of activity. Agricultural trade expansion legislation in process includes a provision for such trade offices. Administration support for this initiative would be consistent with stated Administration export initiatives.

All agencies are in favor except State, OMB, and CEA. State opposes the establishment of separate overseas agricultural trade offices as contrary to the unified foreign service concept.

Yes _____ No _____ Comment _____

14. Multilateral Discussion of Compensatory Defense Agreements. In consultation with Defense, Treasury, Commerce, STR, CEA, and OMB, State would be directed to consider undertaking multilateral consultations on the adverse impact of defense offset sales agreements and to seek their reduction through the formulation of internationally agreed guidelines on the terms for future agreements. While these consultations

could achieve more equitable, competitive arrangements and could shelter the U.S. economy from required purchases of imports in exchange for arms exports, they would be lengthy at best.

It is already DOD policy not to enter into compensatory offset agreements which obligate the DOD to make specific offsetting purchases. The new element in the proposal is the possible establishment of international guidelines affecting transactions in which U.S. firms are often subjected to economic terms imposed by foreign governments. This would not be an extension of U.S. regulation, in that the U.S. Government is already involved in these seemingly private transactions through the export licensing procedure.

All agencies are in favor.

Yes _____ No _____ Comment _____


Juanita M. Kreps

their progress in identifying and reducing such negative export effects where possible, consistent with other legal obligations. Where agencies determine that their statutes would not permit them to take possible negative export effects into account in framing their regulations or taking administrative action, legislation could be considered to remedy this limitation. The CEA would be directed to consider export consequences as part of the "Regulatory Analysis Program." A request would also be issued to the independent regulatory agencies.

This recommendation would inject better balance into Government decisions on issues with potentially adverse export consequences. The export climate would improve as the business community perceived a growing Governmental awareness of the export consequences of its actions.

All agencies are in favor.

Yes _____ No _____ Comment _____

7. Shift in Policy Regarding Use of Export Controls as a Foreign Policy Tool. The Departments of Commerce, State, Defense, and Agriculture would be directed to weigh export consequences as a factor, along with other factors, when considering the use of export controls for foreign policy purposes. Particular weight would be given to whether the U.S. goods in question are also available from countries other than the United States, *RECOGNIZING THAT NONETHELESS THERE MAY BE OVERRIDING FOREIGN POLICY REASONS FOR EXERCISING CONTROLS.*

This recommendation would help provide both U.S. sellers and foreign buyers with greater certainty and predictability as to the application of foreign policy export controls. It would help reform what is regarded by some as an erratic, unpredictable and unfair system which often penalizes U.S. exporters without depriving the potential foreign purchaser of goods or services.

All agencies are in favor except NSC and State, which are still considering the issue.

Yes _____ No _____ Comment _____

8. Guidelines Clarifying the Foreign Corrupt Practices Act. The Department of Justice, in consultation with the SEC and

THE WHITE HOUSE
WASHINGTON

4541

INFORMATION

July 25, 1978

MEMORANDUM FOR: THE PRESIDENT
FROM: HENRY OWEN ¹⁰⁰
SUBJECT: National Export Policy

Juanita Kreps is sending you the recommendations of the inter-agency task force on means to increase US exports.

Increased exports are essential if we are to reduce the current account deficit. Other measures (energy, anti-inflation, etc.) will help, but they cannot do the job alone.

Juanita Kreps' recommendations would put us on the road to improved export performance, which the US pledged to seek in the Summit Declaration. No doubt there are arguments against each recommendation. But unless the essential package is approved, they will not have the desired effect. A few isolated actions will not do the job.

If you approve the package, it would be good if it could be announced as such, with a certain amount of fanfare. This would give you an opportunity to make clear that promoting exports is a goal to which you assign the highest priority. To underline this point, you might indicate your willingness, which you mentioned a while back, to spend a day with the fifty State governors discussing how each of them could improve his or her State's export promotion. Export promotion has been the step-child for the US Government and, I suspect, for US business for so long that only strong Presidential leadership, coupled with concrete measures to stimulate exports, will turn the situation around.

Expanding US exports should be politically popular. You would be the first President in recent history to take effective action to create a national export policy, which would mean more jobs for more Americans.

I do not want to overstate the merits of Secretary Kreps' proposal, because the measures proposed are modest. But they are a beginning and, if presented as such, would be well received by business and the public generally.

There is one recommendation in this report on which I do not feel competent to comment: the proposal for a shift in policy regarding use of export controls as a foreign policy tool (Item #7). This raises issues with wider implications, which I have not studied sufficiently to judge. Otherwise, I recommend approval of the report.

Jay 10/17/82

WASHINGTON

file: TRADE

DATE: 24 JUL 78

FOR ACTION: STU EIZENSTAT

~~FRANK MOORE~~ (LES FRANCIS)

JACK WATSON

ANNE WEXLER

ZBIG BRZEZINSKI

JIM MCINTYRE

CHARLIE SCHULTZE

INFO ONLY: THE VICE PRESIDENT

HAMILTON JORDAN

JODY POWELL

SUBJECT: KREPS MEMO RE NATIONAL EXPORT POLICY

*X@: FM ✓
SL ✓
HL ✓
Ronna ✓*

+++++
+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +
+ BY: 1200 PM WEDNESDAY 26 JUL 78 +
+++++

ACTION REQUESTED:

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

Late - No comment

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS

WASHINGTON

21 JUL 1978

MEMORANDUM FOR THE PRESIDENT

FROM : Ambassador Robert S. Strauss

SUBJECT: Task Force on Export Policy

Secretary Kreps has sent you a set of recommendations that would comprise a beginning of an Export Policy. I have followed its development and while it leaves much to be desired, I support it.

The business community, the Hill and the press have been monitoring this initiative closely. I think it is politically, as well as economically, crucial that they be convinced that the package is a good beginning-- a foundation upon which to build our export drive. In light of the Administration's domestic and international commitment to an expanded and vigorous export effort, I am certain we need something now.

The recommendations will not hinder our current efforts in the multilateral trade negotiations. Moreover, in the wake of the Bonn Summit, the timing for announcing this program is appropriate. Your coming forward with a program to implement Point 20 of the Bonn Declaration so soon after the Summit would signal to the other nations the importance we attach to the Summit commitments and our intention to perform.

There have, as you know, been some economic and budgetary arguments advanced against some of the proposals in the package. Despite my overall budget views, which you know, I think that the amounts here are so small when measured against the importance of presenting a credible package that the costs should be borne.

I have been working with excellent people in the private sector on a high-level Presidential Commission on this subject--a Hoover-type--or Paley-type--which I will furnish you soon.



THE SECRETARY OF THE TREASURY

WASHINGTON 20220

July 24, 1978

MEMORANDUM FOR THE PRESIDENT

Subject: Export Policy Task Force Report

I urge you to approve the recommendations contained in the Export Policy Task Force report being sent to you by Secretary Kreps. Taken together, these recommended actions would improve our export performance and help achieve the objectives of our balance of payments policy.

The export program must be a credible complement to the other two components of our dollar strategy: checking oil imports and curbing inflation. It's also important in trade policy terms as an alternative to limiting imports.

The psychology of the program is almost as important as its substance. We must convince two key audiences:

- the exchange market, that we are serious about defending the dollar over the long pull;
- the U.S. business community, that the USG does care about exports and will assist rather than hobble them.

The package of recommendations has been watered-down considerably to meet the objections of various agencies. While I would prefer a more vigorous export program, I believe the recommendations as presented to you constitute a minimum credible package.

Recommendation

That you approve the package of recommendations from the Export Policy Task Force.

W. Michael Blumenthal

THE WHITE HOUSE

WASHINGTON

July 26, 1978

MEMORANDUM FOR THE PRESIDENT

FROM:

ANNE WEXLER 

SUBJECT:

Secretary Kreps' Memorandum on
National Export Policy

Without making any substantive comments on the recommendations, it is important that any announcement stress that the actions being taken are only a beginning of a national effort to expand our exports within the constraints of our agreements with our treaty partners. You should take credit for having established the first national policy encouraging exports and the mechanism for comprehensively dealing with export policy. In this regard the proposed 14 member committee on export expansion is very important to emphasize your commitment in this area.

Incidentally, the issue on which I hear from almost every businessman is taxation of American's employed abroad--the Section 911 issue. If the Congress is going to resolve this issue, we would show understanding and responsiveness to the business community by being out front on a reasonable compromise.

Finally, the announcement should be put in the context of carrying through on our Bonn commitments.