

Originally Processed With FOIA(s):
2025-0373-S

FOIA Number:
2025-0373-S

FOIA MARKER

**This is not a textual record. This is used as an
administrative marker by the George Bush Presidential
Library Staff.**

Record Group/Collection: George H.W. Bush Presidential Records
Collection/Office of Origin: Chief of Staff, White House Office of
Series: Card, Andrew, Files
Subseries:

OA/ID Number: 08373
Folder ID Number: 08373-005b

Folder Title:
Cabinet Affairs [2]

Stack:	Row:	Section:	Shelf:	Position:
G	15	22	2	

AC Has seen ✓
file

THE WHITE HOUSE
WASHINGTON

September 25, 1989

MEMORANDUM FOR GOVERNOR SUNUNU

FROM; DAVID Q. BATES



At your request, my staff has prepared the attached summary of the methyl chloroform issue in the Montreal Protocol. We will convene meetings of the DPC to resolve any policy differences regarding this issue. We will also be sure Alan Bromley is instrumentally involved in this and other environmental matters being considered in the DPC.

Attachment

September 19, 1989

AMENDING THE MONTREAL PROTOCOL

ISSUE:

The Administration must decide whether to support an expansion of the Montreal Protocol to cover ozone depleting chemicals other than CFCs. Other issues raised by the Protocol may also be on the international agenda in the near future.

BACKGROUND:

The Montreal Protocol mandates the phaseout of CFCs by a set timetable. Earlier this year, the Administration adopted a policy for a more rapid phase out of CFCs, by the year 2000. Parties to the Protocol met in May and evidence was presented of the ozone-depleting characteristics of two other chemicals: methyl chloroform and carbon tetrachloride.

An advance notice of proposed rule-making by EPA in April 1989 also suggested that a freeze or reduction in the production or consumption of these two chemicals could occur. That notice generated strong opposition to a phaseout of methyl chloroform due to the lack of substitutes for its uses. It is a solvent used to clean machinery and is itself an attractive substitute for CFCs, due to its low ozone-depleting potential and low global warming factor. There was less resistance to a phaseout of carbon tetrachloride.

An informal working group of the Parties to the Montreal Protocol met in late August 1989 to prepare amendments to the Protocol. One proposed amendment would require the phaseout of methyl chloroform and carbon tetrachloride. Another meeting of the working group is scheduled for early November, 1989 to clarify this position. Under the terms of the Protocol, all amendments must be finalized by December, 1989 for consideration by the Parties to the Protocol at their next meeting in June 1990.

The Protocol process will force the issue of methyl chloroform and carbon tetrachloride. It will be important to determine the appropriate policy on these chemicals for the U.S. to pursue in future meetings on the Protocol.

TIMETABLE:

Sep. 5-26 1989	--	Papers prepared on the issues.
Oct. 12 1989	--	U.S. delegation meeting on proposed amendments to the Protocol.
Oct. 1989	--	DPC consideration of the issues.
Nov. 1989	--	Policy determined, delegates to the November working group meeting given instructions.
Nov. 13-17 1989	--	Protocol Parties working group meet to prepare amendments to the Protocol.
Dec. 1989	--	Recommendations for amendments finalized.

THE WHITE HOUSE
WASHINGTON

TO: ANDY CARD

FROM: DAVID Q. BATES



FYI



Action



Comment

THE WHITE HOUSE
WASHINGTON

AC HAS SEEN



DATE: 10/13/89

TO:

LEHMANN LI

FROM:

DAVID Q. BATES
Assistant to the President
and Secretary to the Cabinet

Good Paper.

THE WHITE HOUSE

WASHINGTON

October 11, 1989

MEMORANDUM FOR SECRETARY BRADY

FROM: LEHMANN LIT
SUBJECT: Upcoming Potential EPC Issues

The following issues will probably require review by the EPC over the next month. The issues are listed in roughly the order they probably need to be considered.

Airlines

The Congress is now considering proposals that would restrict in some form leverage and/or foreign investment in U.S. airlines. In particular, the Senate is expected to consider soon a Ford/McCain bill that would provide the Transportation Department preapproval authority to review acquisitions. The Administration needs to develop a position on these legislative proposals.

Rural development

The Senate has passed a Leahy rural development bill. The House may move soon on its own rural development bill. The Agriculture Department has been chairing an EPC working group on rural development, which has drafted a proposed action plan for developing the rural economy. The EPC needs to review this action plan to determine if the Administration should offer it as an alternative to the Senate and House proposals.

EC 1992

Given the EC approval of the broadcast directive, there is now interagency discussion of how the Administration should respond. However, instead of reacting to EC actions on specific, individual directives, the Administration should react in the context of an overall strategy toward EC 1992. It would be useful to have: (1) an analysis of the economic impact of the roughly 280 directives on U.S. economic interests; (2) an interagency agreement on those, for example, five directives that have the greatest impact on U.S. interests; and (3) a strategy for focusing the limited resources of the Administration on those five key issues.

To Governor
Sumner
Andy Carol
KYL
JDR
10/12

Joint production ventures

The Congress is considering legislative proposals that would relax the treatment of joint production ventures under the antitrust laws. In addition, the Commerce and Justice Departments have drafted proposed legislation that would achieve the same goals. The Administration should carefully review this issue and its economic implications.

Structural Impediments Initiative

The next round of the Structural Impediments Initiative (SII) talks is scheduled for November 6-7 in Washington. It would be useful for the EPC to review the approach the Administration should take during this round and develop a clear strategy for coordinating any outcome of these talks with the upcoming Super 301 deadlines next spring.

Steel

After completion of negotiations with those countries that have steel VRAs, USTR should make a brief presentation to the EPC to review these VRAs. It would probably be useful for the EPC to discuss the VRAs and the negotiations on an international consensus to reduce trade-distorting measures.

Telecommunications

An interagency working group will develop a new paper that narrows the options faced by the Administration on legislation regarding the line-of-business restrictions on the regional Bell Operating Companies. In addition, the working group will try to obtain a better sense of the environment and prospects for the legislation in the Congress.

Economic statistics

Michael Boskin has sent you a draft report of the EPC working group on economic statistics. The report presents recommendations for improving the quality of those statistics whose collection have the greatest impact on the formulation of economic policy.

Tied aid credits

The EPC working group on tied aid credits policy is developing a strategy for the upcoming OECD negotiations starting on November 8. As directed by the EPC in August, the working group is exploring ways of enhancing U.S. leverage in these negotiations.

AC has seen ✓

THE WHITE HOUSE
WASHINGTON

Andy
Should we try to
get some publicity on
this!!!

Date: 7/5/89

FOR: Governor Sununu

FROM: **ANDY CARD**

- ☐ Action
- ☐ Your Comment
- ☐ Let's Talk
- ☒ FYI

Per David Bates 7/5 . . . GSA did this without any pressure from us. Navy did try to get us in the middle but DQB resisted.

THE WHITE HOUSE
WASHINGTON

TO: GOVERNOR SUNUNU

FROM: DAVID Q. BATES



FYI



Action



Comment

per dtk
is this sincere?
AKC
7/5/89



Administrator
General Services Administration
Washington, DC 20405



June 29, 1989

MEMORANDUM FOR DAVID Q. BATES, JR.
ASSISTANT TO THE PRESIDENT
AND CABINET SECRETARY

FROM: RICHARD G. AUSTIN
ACTING ADMINISTRATOR

SUBJECT: Assignment of Federal Properties for Homeless Use

On Friday, June 30, 1989, the General Services Administration (GSA) will announce that it has made seven more federally owned properties available to assist the homeless under the provisions of the Stewart B. McKinney Homeless Assistance Act. This will bring the total to 17 properties GSA has assigned to the Department of Health and Human Services (HHS) to be leased to homeless organizations for utilization by the homeless. Additionally, we will announce that a 14-acre parcel of Federal land known as Barracks K, adjoining the Pentagon and Arlington National Cemetery, has been transferred to the Department of the Navy.

The following is a summary of each property:

1. Providence, Rhode Island - HHS will lease the three-story, 19,655 sq. ft. former John E. Fogarty Federal Building at no cost to the Travellers Aid Society of Rhode Island, which plans to establish a multi-service center for the homeless.
2. Chillicothe, Ohio - HHS will lease 4.97 acres of unimproved land to Home Between Homes for transitional housing for homeless individuals and families. The plans include the renovation of six modular buildings to house 54 persons. One building will be an 18-bed dormitory for single men and the other five will house families and single women.
3. Port Gibson, Mississippi - HHS will lease the former Federal Building and Post Office to the Whitman (Grady) Mayo Scholarship Foundation. The two-story brick building contains 7,951 sq. ft. of space which will be used to provide up to 60 days' temporary shelter to the homeless and victims of domestic violence, financial crises, tornadoes, fire or other mishap. The facility will serve a 12-county area.

4. Lander, Wyoming - A former ranger dwelling will be leased by HHS to Inter-Christian Correlation Organization, Inc. The 1,600 sq. ft. house will be used as a multi-service facility and provide food and shelter for the homeless.

5. Little Rock, Arkansas - Four acres with seven buildings at the Veterans Administration Medical Center will be leased by HHS to Our House Shelter to provide transitional housing and shelter. The seven buildings total 30,000 sq. ft. of space which will accommodate 50 beds, food service, and a child care center.

6. San Diego, California - Two parcels of unimproved land, a portion of Camp Elliott, will be leased by HHS to San Diego Coalition for the Homeless. This property will be used for transitional housing for homeless families and the Coalition plans to construct a building on each parcel to house five to seven families.

7. Washington, DC - Three parcels adjacent to the existing Federal City Shelter will be leased by HHS to the National Coalition of the Homeless which operates the adjacent shelter. Included are two parcels to be used for parking, auto repair classes, volleyball and basketball courts. The third, a 4,366 sq. ft. building, will be used for job training and cultural classes for homeless persons.

8. Arlington, Virginia - A 14-acre parcel of federally-owned land known as Barracks K, adjoining the Pentagon and Arlington National Cemetery, will be transferred to the Department of the Navy for continued utilization as a parking facility to support the operations of the Navy Annex. Since 1940, the Navy has occupied this site to support DOD activities in the adjoining Federal Building Number 2. The site serves as a parking lot for 6,000 employees daily.

Most importantly, continued Navy use of the Barracks K property is absolutely vital to the Department of Navy mission. First, the property will serve as swing and staging space for the renovation of the Pentagon. Second, the property is likewise essential as swing space for the renovation of the Navy Annex. Finally, DOD and the Navy have expressed that this site will play a prominent role in the master plan when future development of the Pentagon site begins.

This property was also sought by an organization named Creative Housing Solutions, Inc., to be used for the construction of transitional housing on the property. The competing requests of the Department of Navy and Creative Housing Solutions, Inc., were carefully reviewed by GSA and a determination has been made that

continued utilization by the Department of Navy is in the best interest of the Government. In an effort to ameliorate the impact to the working homeless, GSA sought and secured the assistance of the Department of Housing and Urban Development (HUD). HUD has agreed to make available, through the Fairfax County Housing Authority, 100 housing vouchers to meet the needs of homeless families in Northern Virginia.

We should note that the umbrella organization of Creative Housing Solutions, the Northern Virginia Chapter, National Union of the Homeless, will very likely seek a temporary restraining order in the District Court of the District of Columbia. We have consulted with the Department of Justice regarding this action and have been advised that they are prepared to defend the Government should legal action be taken. Appropriate advance Congressional contacts have been made regarding Barracks K and notice to Members in whose districts these properties are situated will be given at the time of announcement.

THE WHITE HOUSE
WASHINGTON

DATE: 9/26/89

TO: ANDY CARD

FROM: **DAVID Q. BATES**
Assistant to the President
and Secretary to the Cabinet



To respond to your questions,
"Legacy 99" is included in the
Department of Interior's FY 1991
budget submission.

I have encouraged Manuel to keep
the discussion of this initiative
in the budget process, although
I have told him he should
mention it to the President (which
he did in New Orleans) and brief
other White House staff on it as
he deems appropriate.

Attachment

THE WHITE HOUSE
WASHINGTON

DATE: 9-23-89

TO: David G. Bates

FROM: ANDY CARD *Andy*

What's the status with
this? Is Dick Darnen
fully supportive?



THE SECRETARY OF THE INTERIOR
WASHINGTON

September 5, 1989

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

During your Presidential campaign, you proposed the creation of a National Endowment for the Environment to enhance our land and water resources for the benefit of all Americans. More recently, you established the promotion of responsible stewardship for the Nation's parks, wildlife refuges, and public lands as a primary objective for the Department of the Interior.

As I have mentioned to you, I believe this Administration should now begin an initiative to achieve improvements in the condition of our national parks, wildlife refuges and public lands, and to create a financing mechanism which supports your land and water acquisition objectives and maintains these resources in exemplary condition into the 21st Century. Under this proposal, a multi-year program will be initiated to address a serious backlog in rehabilitation and maintenance on our public lands that already totals over \$2 billion. This backlog includes inadequate visitor services, deteriorating support facilities, hazardous waste cleanups, deferred maintenance and unsafe dams. The cost to address this backlog is increasing as problems become more acute and as we acquire new properties. I am also concerned that these problems are cited by some as evidence that additional restrictions on the use of our public lands are the only way to protect them. We need to carry out our stewardship responsibilities in a manner that sets a clear example of caring for these lands, one in which Americans can justifiably take pride. Consequently, I propose to eliminate this backlog between 1991 and 1999, under an effort I propose we call "Legacy 99."

Our ability to address this backlog is now limited by budget constraints. The Land and Water Conservation Fund can only be used at the Federal level for land acquisition, not for improvements or maintenance. We need a National Endowment for the Environment that is sufficiently funded to support not only land acquisition but also "Legacy 99" and the future maintenance of our public lands resources into the 21st Century.

Page 2

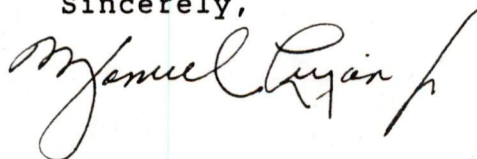
My proposal for an endowment involves the creation of a new trust fund, as briefly outlined in the enclosure. The endowment would require approximately \$800 million annually in revenues through Fiscal Year 1999. Approximately 80 percent of its support would be derived from Outer Continental Shelf revenues (part of which are already dedicated to the Land and Water Conservation Fund), with the remainder coming from new funding sources that might include, for example, annual holding fees for mining claims on public lands, federal income tax checkoffs, corporate donations, and repayments by power marketing administrations of debts owed to the Federal Government.

Approximately one-half of the endowment's annual revenues would be used to eliminate the rehabilitation and maintenance backlog and to fund annual land acquisition priorities such as wetlands and open spaces near urban areas. The remainder would be invested to capitalize the trust fund, so that approximately \$5 billion would be available by 1999 to maintain our resources in later years and to support future land acquisition.

By implementing this proposal, we will achieve sound conservation management and responsible stewardship. We will also achieve a more balanced approach between funding new land acquisition and the costs of maintaining these new lands and those we already own. Most importantly, I believe that "Legacy 99" and the National Endowment for the Environment will be regarded as the fulfillment of your commitment to present and future generations.

The Department's Fiscal Year 1991 budget proposal includes more details for your review. This proposal will require significant legislative action. However, I believe it is a substantive, high profile initiative which will generate the widespread public and Congressional support needed to assure its enactment. I look forward to working with you on this idea.

Sincerely,

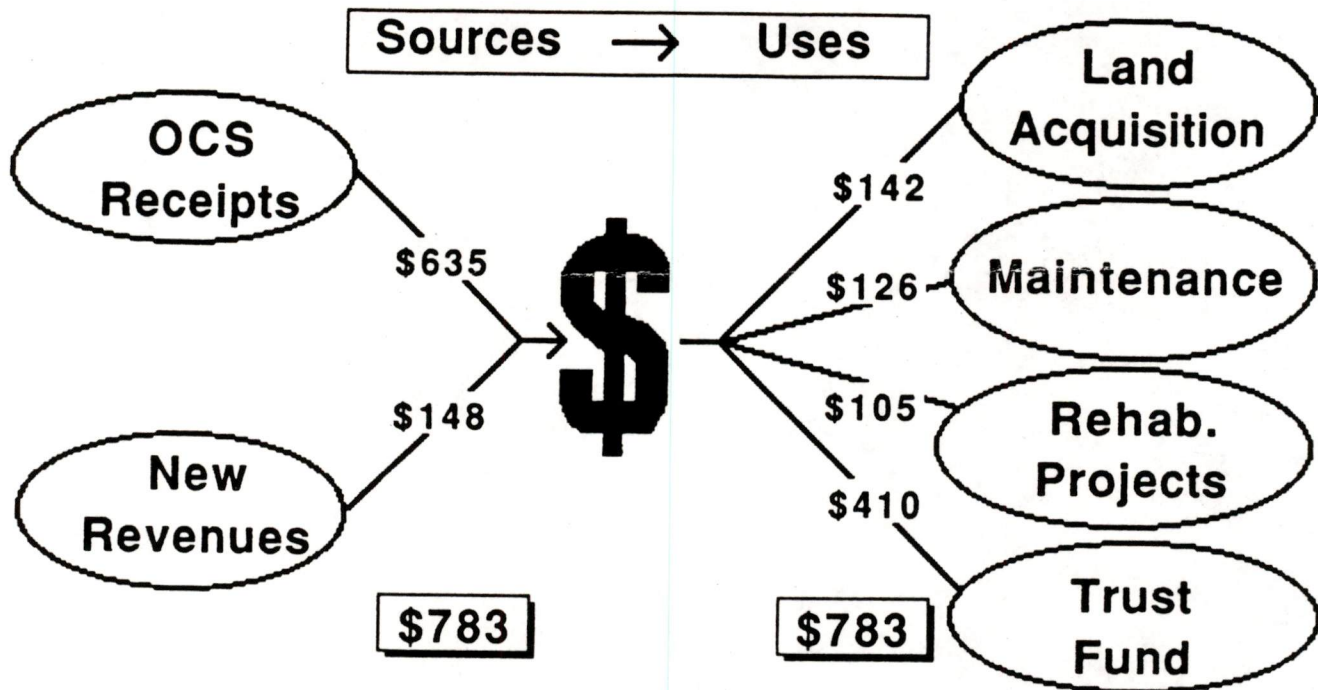
A handwritten signature in dark ink, appearing to read "Manuel Lujan Jr.", with a stylized flourish at the end.

Enclosure

cc: Honorable Richard Darman

Legacy '99/National Endowment

Estimated \$ Sources and \$ Uses Per Year
(\$ in millions)



File

THE WHITE HOUSE
WASHINGTON

October 2, 1989

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: DAVID Q. BATES 
SUBJECT: Announcement of HUD Reforms

At 1:30 p.m. on 3 October Secretary Kemp plans to announce a comprehensive package of ethical, management and financial reforms for HUD operations. Attached is the HUD package Kemp will release.

The package is the result of a department-wide assessment Kemp undertook in the wake of revelations about mismanagement in the Moderate Rehabilitation program.

As you know, the House Government Operations Committee is continuing hearings on HUD mismanagement. Senate Democrats have formed a Task Force on Housing Reform that plans to produce a reform package for HUD and for housing policy in general. I am told this effort may displace the housing initiative introduced earlier this year by Senators Cranston and D'Amato. Other Members of Congress, including Congressman Schumer and Congresswoman Roukema, are also working on HUD reform bills.

Attachment

cc: Richard Darman
Marlin Fitzwater
Fred McClure

Kemp will say
that there are
"recommendations to the
White House." per DQB
10/2
AHC

600-
These recommendations
have not gone through the
WH/OMB process.
Andy

TABLE OF CONTENTS

I. Ethics

ETH-1	Allocation of Housing Assistance - Sunshine
ETH-2	Public Disclosure of Allocation and Funding Decisions
ETH-3	Abolish Discretionary Headquarters Reserve Funding
ETH-4	Eliminate the CDBG Discretionary Fund
ETH-5	Sunshine Waiver of Regulation
ETH-6	Inspector General
ETH-7	Civil Money Penalties
ETH-8	Registration of Consultants
ETH-9	Prohibition of Advance Disclosure of Funding Decisions
ETH-10	HUD-Funded Travel Subject to GSA Regulations

II. Management Reform

MR-1	Management Review
MR-2	HUD Financial Officer
MR-3	Program Financial Management
MR-4	Program Evaluation
MR-5	Expedite HUD Rulemaking
MR-6	Ratify HUD's Section 8 Rent Adjustment Procedures
MR-7	Improve Block Grant Program Sanctions
MR-8	Section 235 Refinancing
MR-9	Bankruptcy Code
MR-10	GNMA Protection from Injunctions
MR-11	Single Audit Act
MR-12	Target CDBG to low/mod income
MR-13	CDBG Antipoverty Strategy
MR-14	Low Income Housing Tax Credit
MR-15	Redemption of Foreclosed Properties
MR-16	Moderate Rehabilitation Program

III. Federal Housing Administration Reforms

FHA-1	Require Annual Audited Financial Statements for FHA
FHA-2	Commission Independent Actuarial Analysis
FHA-3	Unify FHA Program Accounting Functions
FHA-4	Require Program by Program Accounting
FHA-5	Require Region by Region Accounting
FHA-6	Institute Processing Improvements

Single Family Housing: Back to Basics

FHA-7	Prohibit Private Investors
FHA-8	Prohibit Dealer Originations of Title I Home Improvement Loans
FHA-9	Prohibit Dealer Originations of Title I Manufactured Home Loans
FHA-10	Restrict Second Home Loans
FHA-11	Require Credit Checks for Loan Assumptions
FHA-12	Terminate Title X Land Development Insurance Program
FHA-13	Provide Authority for Regional Underwriting Criteria
FHA-14	Review Incontestability Policy in Cases of Fraud
FHA-15	Require State or HUD Certification of Appraisers
FHA-16	Control Quality of Program Participants

Multi-Family Housing: Sound Financial Basis

FHA-17	Coinsurance Reforms
FHA-18	Transfer Hospital Mortgage Insurance
FHA-19	Revise Property Disposition Requirements for Non-subsidized Multi-Family Projects
FHA-20	Revise Multi-Family Property Disposition Procedures
FHA-21	Review Multi-Family Programs Terms and Premiums
FHA-22	Amend Multi-Family Mortgage Foreclosure Act

Part I. ETHICS

ETH-1. Allocation of Housing Assistance -- Sunshine.

- allocate housing assistance using a needs-based formula or a competitive process

Background. This proposal is designed to eliminate the "total discretion" and the "political" emphasis that characterized all too many of the Department's housing assistance programs in the past. Problems were first identified in the Section 8 Moderate Rehabilitation program and in funding from the "Headquarters Reserve." A competitive process with publicly articulated selection factors will help ensure a fair funding system.

Specific Example. Funding for the Moderate Rehabilitation program was allocated for years without being subject to any objective criteria.

Reform. This proposal will establish a specific requirement that all incremental housing assistance appropriated to assist families be made either (a) through a formula reflecting the relative need of the area (often referred to as the "fair share" formula), or (b) through a competitive process on predictable cycles. The competitive process will be published in a Notice of Funding Availability (NOFA) with explicit selection criteria, including such factors as the quality of the project and the need for the project in that location. In some cases, such as the Section 202 program for projects for the elderly and handicapped, the assistance will be allocated to urbanized areas and then allocated to particular projects based on a competitive process. Whenever possible formulized allocations to urbanized areas will be used.

Assistance appropriated for special needs will also be awarded based on a competitive process, using explicit criteria, including such factors as the need to correct health and safety conditions and to preserve low- and moderate-income housing. For example, HUD will competitively allocate section 8 rental assistance to projects with FHA insurance where rental assistance is needed, and Flexible Subsidy assistance to FHA projects in need of capital improvements.

Action. Legislative Proposal

ETH-2. Public Disclosure of Allocations and Funding Decisions.

- publish allocations of housing assistance quarterly
- publicly announce all funding decisions

Background. These disclosure requirements respond to criticisms that the Department uses a secret process based on political favoritism to pass out housing assistance.

Specific Example. In the past, the Moderate Rehabilitation program funding was often decided on the basis of political favoritism. This approach would have been discouraged had public disclosure of allocations and funding decisions occurred.

Reform. HUD will publish quarterly in the Federal Register its allocations of housing assistance made under section 213(d) of the Housing and Community Development Act of 1974. This will include the Regional Administrator's funding decisions, in cases where allocations are made only to the Regional office level because of the limited amount of funding involved.

In addition, HUD will announce publicly all funding decisions for programs where projects are selected competitively.

Action. Legislative Proposal

ETH-3. Abolish Discretionary Headquarters Reserve Funding.

-- abolish discretionary assisted housing headquarters reserve

Background. HUD is currently authorized to reserve up to 15% of the amounts available for housing assistance in a Headquarters Reserve. Amounts in the reserve have been used to fund projects directly from the Central Office without subjecting them to the fair share (pro-rata) formula or to competition.

Specific Example. This proposal will eliminate situations where developers and consultants have persuaded Washington officials to intervene in local funding allocations. Such activities were common under the Moderate Rehabilitation programs.

Reform. The Department will propose a line item in the Department's appropriations act to enable it to hold a limited amount of assistance in Headquarters to fund only: (i) unforeseen housing shortages due to natural or other disasters, (ii) desegregation efforts, (iii) litigation and (iv) other emergencies.

Action. Legislative Proposal

ETH-4. Eliminate the CDBG Discretionary Fund.

- eliminate technical assistance and special projects funding in the Community Planning and Development discretionary fund.
- allow programs to fund their own Technical Assistance (TA) efforts through a set-aside of program funds.

Background. HUD makes grants to a wide variety of organizations through the Secretary's discretionary fund for technical assistance and other special projects. Many of these have been Congressionally mandated, and have not necessarily been reflective of HUD's own priorities. When used by other program offices within HUD the CDBG connection is sometimes tenuous.

Specific Example. One TA contract, initially an unsolicited proposal, resulted in the expenditure by the grantee of more than half the funds received on a cross-country quest for municipalities actually in need of the technical assistance. Additionally, because funds were available, Congress has required HUD to fund special projects.

Reform. This proposal would end raiding of a separate pool of money for dubious or arbitrary purposes yet assure that legitimate requests for unique types of programmatic assistance may still be satisfied.

Action. Legislative Proposal

ETH-5. Sunshine Waiver of Regulations and Handbooks.

- require that all waivers of regulations granted by the Department be published quarterly in the Federal Register; and
- require that (a) requests for waivers of any HUD regulations be in writing, (b) the decision be in writing and justified on the basis that they are in the public interest or necessary to prevent undue hardship and then only where they are consistent with programmatic or Secretarial objectives, (c) the Assistant Secretary personally grant all waivers of regulations and (d) that waivers of handbook procedures (as opposed to regulations) be recorded, justified, indexed and made available for public inspection.

Background. HUD now waives nonstatutory requirements in its regulations. In the past, developers with close relations to HUD Headquarters would routinely receive special exemptions from HUD regulations. The financial benefits could be as rewarding as a direct grant of funds.

Specific Example. In an upper income area of Chicago, luxury apartments were able to qualify for FHA insurance through waivers of normal cost and mortgage ceilings.

Reform. The requirement for publication of waivers of regulations is another sunshine proposal that will assure that only waivers that can withstand public scrutiny are approved. Waivers of handbook procedures will be recorded and maintained.

Action. Legislative Proposal

ETH-6. Inspector General.

- authorize the IG to compel witnesses to testify
- increase IG staffing

Background. The IG's current authority is limited to the subpoena of documentary evidence. The IG can only request witnesses to testify.

Specific Example. It is difficult for the IG to aggressively pursue investigations into fraud, waste, and abuse of HUD's programs without being able to compel testimony from participants and HUD staff. The lack of this authority hindered the IG's ability to pursue investigations into the Moderate Rehabilitation program abuses and other matters in the past.

Reform. This proposal would authorize the IG to issue subpoenas to compel witnesses to testify in connection with IG audits and investigations, and give the IG the same tools Congress has to carry out thorough investigations. As with other subpoenas, the IG could go to court to enforce refusals to comply with this subpoena authority. The authority would not, of course, abrogate witnesses' constitutional right against self-incrimination.

Additional staffing will enable the IG to carry out additional audits and investigations of the Department's programs.

Action. Legislative Proposal

ETH-7. Civil Money Penalties.

- authorize the Secretary to impose civil money penalties on:
 - HUD-approved lenders in the FHA full insurance and coinsurance programs;
 - mortgagors under the FHA multifamily programs;
 - entities subject to the Interstate Land Sales Full Disclosure Act for violation of program requirements;
 - approved lenders under GNMA's mortgage-backed securities program.

Background. HUD lacks sufficient tools to assure that participants in its programs comply with program requirements. The applicable criminal penalties are often insufficient to assure enforcement since problems of proof and limited resources in the offices of the U.S. Attorneys make criminal prosecution difficult.

Specific Example. Defaults under the coinsurance program will cost the Department hundreds of millions of dollars. If mortgagees and mortgagors had been subject to the possibility of paying civil money penalties for program abuses, it is likely the losses would have been reduced.

Reform. Authorizing the Secretary to impose civil money penalties for violations of specific program requirements will permit HUD to more effectively deter fraud and other violations by mortgagees and lenders, multifamily mortgagors, developers subject to the Interstate Land Sales Full Disclosure Act, and approved lenders under GNMA's mortgage-backed securities program. The possibility of civil money penalties should also help expedite execution of settlement agreements.

Action. Legislative Proposal

ETH-8. Registration of Consultants.

- require registration by consultants and lawyers
- require disclosure by project sponsors of fees paid
- impose fines of up to \$10,000 for each act of noncompliance

Background. Would-be influence peddlers will be subject to full public scrutiny. This proposal, together with ETH-9, which would authorize a fine for HUD employees who disclose advance information about pending funding decisions, is intended to curtail abuses by consultants and lobbyists.

Specific Example. In the Moderate Rehabilitation program, non-technical consultants were paid up to \$1,000 per unit to arrange funding awards in advance of public notice.

Reform. This proposal would require that consultants and lobbyists doing business on behalf of clients for HUD-funded projects and activities register with the Department. Their clients would be required to disclose the amounts paid to the consultants. Civil money penalties of up to \$10,000 per violation would be authorized in the case of noncompliance. Fees paid to consultants, lobbyists and lawyers will be considered in determining the amount of assistance to be provided.

Action. Legislative Proposal

ETH-9. Prohibition of Advance Disclosure of Funding Decisions.

-- \$10,000 fine for HUD employees who release information on pending funding decisions

Background. To promote the integrity of HUD's decision-making process in programs subject to a competitive process, HUD employees must be forbidden from advance disclosure of nonpublic financial information to any individual or entity that could financially benefit from receiving such information.

Specific Example.

Reform. This proposal will prohibit advance disclosure of pending HUD decisions that could have the effect of giving unfair financial advantage to any party. HUD staff, including political appointees, responsible for releasing such information would be subject to a civil money penalty of up to \$10,000. Advance notice to Congress would continue.

Action. Legislative Proposal

ETH-10. HUD-Funded Travel Subject to GSA Regulations.

-- require HUD-funded travel by HUD-funded grantees to conform to Federal travel standards

Background. Public housing agency employees and employees of other HUD-funded entities often attend meetings and conferences held in vacation spots in hotels which charge more for rooms than Federal guidelines permit for Federal employees. Federal money should not be used to fund travel that does not meet the strict GSA travel regulations which assure strict accountability and modest accommodations.

Specific Example. A recent advertisement for a conference for PHA commissioners that will be held in a luxury coastal resort illustrates this problem. The ad notes that the resort "is situated directly on the Gulf of Mexico and features wide beaches and sporting activities. Come, learn and enjoy."

Reform. This proposal will require that all HUD-funded travel by any HUD-funded grantee be in accordance with GSA travel regulations.

Action. Administrative

**PART II. HUD MANAGEMENT REFORM, INCLUDING
FINANCIAL MANAGEMENT REFORM**

MR-1. Management Review

- Complete independent comprehensive management review of HUD
- Hire Price Waterhouse to recommend financial and management controls

Background. HUD has suffered from years of poor communications among offices and divisions within HUD, lack of common oversight and control, and a lack of managerial accountability. There is reason to believe that HUD's management structure may contribute to these difficulties. While wholesale reorganization is not likely to be necessary, there are functional problems which need to be studied by outside experts, particularly in technical areas, such as accounting and information systems.

Specific Example.

Reform. HUD has initiated a comprehensive management review to identify all structural and systemic changes needed for further reform. In addition, Price Waterhouse will specifically examine and recommend improvements to the financial policies, practices, and controls in HUD's Office of Finance and Accounting.

Action. Administrative

MR-2. HUD Financial Officer

- Appoint a Chief Financial Officer reporting directly to the Secretary.
- Appoint a Comptroller for FHA.

Background. In recent testimony on FHA performance, a representative of the Government Accounting Office stated, "an important part of the solution to HUD/FHA's problems is to establish a Chief Financial Officer within HUD and a corresponding comptroller within FHA. A chief financial officer would be responsible for setting accounting and financial reporting policies, directing the development and operation of financial management systems, and ensuring the maintenance of a sound internal control structure. The FHA Comptroller would share the same responsibilities as the HUD Chief Financial Officer, but within FHA."

Specific Example. CFO's are responsible for making sure that cash management systems are tightly controlled. As in the Closing Agent embezzlement episodes ("Robin HUD", etc.), there has been inadequate attention to reconciliation of accounts, management reports, and cash tracking. Basically, no one was accountable for making sure that managers and systems worked together to prevent fraud.

Reform. Two critical needs are a chief financial officer for HUD and common oversight and accountability for program and processing efforts.

Action. Legislative and Administrative

MR-3. Program Financial Management

- Created a task force to tighten financial management activities
- Complete priority action plans by the end of November

Background. The Secretary created a task force on July 14 to identify systemic management problems in 26 major program and financial management activities of HUD. The task force will also document their findings and recommend solutions to each problem, and develop an action plan describing implementation of the solutions. Fourteen of these activities were given the highest priority for immediate action. These fourteen cover the majority of HUD's collection and disbursement activities. Action plans for these fourteen will be developed by the end of November and implemented immediately. Action plans for the remaining twelve will be developed and implemented shortly thereafter.

Specific Example. The activities of FHA closing agents are not adequately controlled, allowing closing agents an opportunity to defraud the federal government. The Robin-HUD case is a well-publicized example of inadequate internal controls.

Reform. The Task Force has convened over 70 working group meetings to review documented problems from GAO, IG, OMB, and productivity studies. Action plans identifying major problems and the steps needed to correct them will result from task force analysis.

Action. Administrative

MR-4. Program Evaluation

-- Establish a fund for evaluation and monitoring.

Background. HUD spends \$17-18 billion per year in grants and assistance, yet less than \$25 million for evaluation and monitoring. Such expenditures would pay for themselves by averting unnecessary payments and fraud.

Specific Example. The Section 8 program disburses more than \$10 billion annually on behalf of more than 2.4 million households, but does not have complete records regarding the program. HUD is not able to verify the accuracy of subsidy payments.

Reform. Under this proposal, an amount up to 0.5% of total expenditures would be dedicated to program evaluation and monitoring.

Action. Legislative Proposal

MR-5. Expedite HUD Rulemaking.

-- Streamline legislative review procedure applicable to production of HUD regulations

Background. Legislative review began in 1978 with the adoption of a cumbersome and time-consuming procedure calling for making the effectiveness of HUD rules subject to review by the Banking Committees. While the Committees employ the review as a tool for oversight, existing procedures subject HUD rules to extreme delays and hamper the Department's ability to institute necessary policy and statutory mandates.

Specific Example. The waiting period for effectiveness of a published rule can be 30 days--or six months depending solely on how the congressional recess schedules relates to the rule's date of publication. The length of the wait bears no relationship to the published document's merits, to its popularity or unpopularity with the Banking Committees, or to the importance of the rule to HUD program participants.

Reform. This proposal would amend section 7(o) of the HUD Act to permit expeditious review of all HUD regulations.

Action. Legislative Proposal

MR-6. Ratify HUD's Section 8 Rent Adjustment Procedures.

- Ratify HUD's established Section 8 rent adjustment procedures

Background. HUD's Section 8 rent adjustment procedures are limited by comparability studies, so as to prevent material differences between the rents charged for assisted and comparable unassisted units of similar quality and age in the same market area.

Specific Example. In the Rainier View decision, the 9th Circuit held that HUD had misapplied the statute. One consequence of this decision was that a for-profit landlord received a check for \$3 million in windfall subsidies and funds that should be used to assist additional families. Often, developers have already been paid up to 120% of market rates.

Reform. Legislative relief will be sought.

Action. Legislative Proposal

MR-7. Improve Block Grant Program Sanctions

- more effectively record misspent funds by eliminating cumbersome procedural requirements
- retain authority to condition grants on ongoing performance, to litigate compliance problems, and to seek judicial relief
- statutorily expand rights of grantees to consult with HUD prior to imposition of sanctions
- facilitate HUD's efficient management of ongoing performance problems

Background. Because of a recent court decision, HUD may no longer condition or reduce a future grant to compensate for disallowed costs resulting from audits or monitoring. The two courses available now are to provide for a hearing before an administrative law judge, or to bring the matter before the courts. In most cases, the grant funds will have been spent fully, and only the courts can recover already spent funds from a grantee. Thus, hearings before an administrative law judge, in practice, are of limited usefulness to HUD.

Specific Example. HUD has found numerous activities in each of the past several years where counties have spent CDBG funds the county cannot validate. By the time HUD exhausts its current administrative remedies trying to find out, it is quite likely that all the funds will have been spent by the county.

Reform. For cases of continuing performance problems, this legislation authorizes HUD to apply sanctions to past and future grants, in ways that guarantee the rights of grantees. The opportunity to seek judicial relief in cases of past substantial noncompliance is preserved. The proposal would assure that HUD has more effective legal remedies at hand than now exist to assure proper use of its funds.

Action. Legislative Proposal

MR-8. Section 235 Refinancing

-- Offer incentives to homeowners to encourage refinancing of FHA-insured home loans.

Background. Many homes purchased under the Section 235 program for low income homeownership carry mortgages at high interest rates. Because HUD pays interest above a certain rate, it will realize all of the savings if the owner refinances to a lower rate.

Specific Example. At current market rates, the U.S. Treasury could recover an estimated \$200 million by refinancing. In 1986 (before many participants left the program) HUD's Inspector General estimated the figure at almost \$800 million.

Reform. The Department proposes to offer incentives for owners in the Section 235 program to refinance, which will result in net savings.

Action. Legislative Proposal

MR-9. Bankruptcy Code

-- exempt actions taken by HUD from the automatic stay provision of the Bankruptcy Code.

Background. Under current law, we may commence, but not proceed with foreclosure after a bankruptcy petition has been filed. This proposal would exempt from the automatic

stay provision of the Bankruptcy Code actions taken by HUD to carry out and complete foreclosure of multifamily projects.

Specific Example. The HUD office in Boston had one project that defaulted in 1977, but could not be foreclosed until 1989.

Reform. This would permit HUD to protect the interest of the Department and the tenants in the project.

Action. Legislative Proposal

MR-10. GNMA Protection From Injunctions

- Protect GNMA from injunctions
- Clarify statute to ensure such protection

Background. Current statute that protects GNMA from injunctions against it with respect to its property has not adequately protected GNMA in all cases. Statute needs to be clarified to prevent any injunctions against GNMA or its property.

Specific Example. DRG Funding Corp. prevailed in obtaining an injunction against GNMA in its effort to declare DRG in default under the Coinsurance program.

Reform. Clarify current statute with regard to definition of the word "property" in Section 309(a). Clarification should indicate that the protection of GNMA from injunctions against its property or itself with respect to its property includes, but not by way of limitation, mortgages that constitute a thrust or pool against which securities have been issued which bear the guarantee of the Association.

Action. Legislative Proposal

MR-11. Single Audit Act

- amend the Single Audit Act

Background. Under the current law recipients are only required to have one audit of all federal funds. HUD programs sometimes merit only a line or two in the audit, which gives us little, if any, useful information.

Reform. This proposal would amend the Single Audit Act so greater review and reporting on program performance can be achieved.

Action. Legislative Proposal

MR-12. Target CDBG Better To Low and Moderate Income Persons

- tighten the counting rules to end distortion of reported benefits by requiring proportionate accounting
- increase to 75% the overall low/mod benefit requirement
- provide for more effective targeting of funds in more affluent communities by requiring 100% of activities to address the low/mod benefit objective

Background. Under existing law, CDBG grantees can spend up to 40% of their funds for activities which do not benefit low and moderate income persons. Moreover, activities assisted with the balance of funds may benefit a substantial proportion of people who are not low or moderate income. As a result, the actual proportion of funds spent by some communities to benefit low and moderate income persons can be substantially less than 50%.

Specific Example. One wealthy suburban community used CDBG funds to plant trees, and install bike racks and benches. The funds could have gone instead to other parts of the county which have profound housing and economic development needs. The new proposals would make it highly unlikely that the county could fund these sorts of activities.

Reform. These proposals, taken together, would assure that scarce resources are targeted more effectively and that both HUD and Congress are more realistically informed as to who actually benefits from CDBG expenditures.

Action. Legislative Proposal

MR-13. CDBG Antipoverty Strategy

- require entitlement grantees and states to have a strategy for fighting poverty

Background. The CDBG allocation formulas provide funds to recipients, in large measure, because of the extent of poverty within their jurisdictions. There is, however, no program requirement that funds be used by the recipients to reduce actively the incidence of poverty.

Specific Example. A large city in the Sunbelt, over several years, has spent the bulk of its CDBG funds on the redevelopment of its downtown district -- not on fighting poverty.

Reform. This proposal would bring recipients of CDBG funds into partnership with HUD as it wages a new war on poverty and require them to think through a CDBG strategy consistent with federal goals.

MR-14. Low Income Housing Tax Credit

Background. HUD holds mortgages, owns units, and assists owners of low income units throughout the country. To preserve the existing stock in assisted inventory and maintain units in its HUD-held and HUD-owned inventories, the Department considers numerous proposals to rehabilitate, restore and maintain units as well as cure defaults on loans and mortgages insured or held by the Secretary. Projects financed with tax credits which also seek or require various forms of HUD subsidy for feasibility have necessitated review of the process by which subsidy is granted to insure best use of scarce resources.

Reform. The process review initiated by Housing will ensure that scarce resources serve the maximum numbers of units rather than subsidized the fees of consultants.

Action: Administrative

MR-15. Redemption of Foreclosed Properties

Background. In many states, the Department incurred a loss on foreclosed property it could not sell because FHA was required to abide by State mandated redemption periods. When legislative relief was granted to FHA programs, the same protections were not afforded properties under the Section 312 program.

Specific Example. In the case of a property which stands vacant for a year due to redemption rights, the Department can lose its entire loan investment due to vandals or deterioration.

Reform. The Department seeks the same peremption rules for the Section 312 community development loans as it has for FHA single family program.

Action. Legislative Proposal.

MR-16. Moderate Rehabilitation Reform

Background. Internal investigations have uncovered patterns of favoritism and abuse in the selection of projects for funding under the Moderate Rehabilitation Program.

Specific Example. In one case, local officials had not requested assistance for an area, yet units were provided, throwing into question the priorities and methods used to make funding decisions.

Reform. The Section 8 Moderate Rehabilitation Program will be terminated.

Part III. Federal Housing Administration Reforms

I. MANAGEMENT AND ACCOUNTABILITY

FHA-1. Require Annual Audited Financial Statements for FHA

Background. Annual audited financial statements are the most basic of all management requirements. In a financial operation, the top-level reports drive all lower-level systems, and systems deteriorate without the discipline of rigorous annual review at the top. In particular, insurance operations require both cash-based and accrual-based records.

Yet FHA did not have annual audited reports from 1974 until 1989, and its internal reports only measured results on a "cash basis." The result was an absence of necessary accounting controls and reporting.

[Insert Rider 1]

Reform. HUD will require and publish annual audited financial statements, prepared by an independent accounting firm. These statements will be on both a cash and accrual basis, and will be consistent with generally accepted accounting principals.

Action. Legislative Proposal

FHA-2. Commission Independent Actuarial Analysis

Background. FHA operates 47 different insurance programs. Because economic and technological changes have affected the viability of many of them, a reassessment of FHA's basic financial exposure is necessary.

Specific Example. Although it has over \$300 billion of insurance-in-force, FHA has only one certified actuary. By contrast, the Prudential Insurance Company has 150 actuaries.

Reform. An independent actuarial study has been commissioned by HUD. This effort will include the development of a computer model that FHA managers can use to test the impact of rapidly changing economic conditions, the effects of proposed legislative initiatives, and the effect of various terms and conditions on the viability of policies.

Action. Administrative

FHA-3. Unify FHA Program and Accounting Functions

Background. FHA's programmatic divisions (under-writing, management and monitoring) report to the FHA Commissioner, while the accounting divisions report through another line of authority to the Assistant Secretary for Administration. This split of FHA was ordered in the early 1970s - the same time that audited financial statement became difficult to produce. Two problems have resulted: (i) program managers are not accountable for finances, and (ii) accounting and processing are not accountable to program needs.

Specific Example. When the new FHA appointees interviewed one program manager about the losses in his program, he had no idea how much they were - the accounting people would know. The accounting people didn't know. They'd never been asked. It took Assistant Secretary-level orders from both FHA and Administration to produce a rudimentary loss estimate (about \$170 million).

Similar incidents have occurred during the reviews of nearly every program. The avoidance of financial accountability in FHA has become cultural and pervasive.

Reform. A Comptroller will be appointed within FHA to oversee cash flows and to direct business operations. The FHA Comptroller and FHA accounting and insurance processing functions will report to the FHA Commissioner. The Commissioner will therefore be accountable for the financial operations of FHA, and will ensure that both program and accounting managers are required to work together. All FHA accounting will be consolidated into the HUD general ledger under the Chief Financial Officer.

Action. Administrative

FHA-4. Require Program-by-Program Accounting

Background. Currently, no accounting records break down financial results by program. Instead, all profits and losses are lumped together into arbitrary totals. Without accounting by "section of the Act", Congress cannot judge the efficiency of housing programs it creates, and managers inside FHA have no feedback on the operations of their own programs. Such accounting systems formerly existed, but were dropped ten years ago.

As GAO noted in testimony before the Senate Banking Committee, "At present, managers at FHA do not have sufficient program-level financial information to determine which programs are self-sustaining and which are not... Financial information is periodically produced only for each of its four major funds."

Specific Example. Title I Manufactured Housing mortgage insurance has apparently sustained hundreds of millions of dollars in losses in recent years. We say, "apparently", because no one can tell for sure; HUD's computer systems cannot distinguish between Manufactured Housing's losses and those of coinsurance, hospitals, Title X, and other programs consolidated in the General Insurance Fund.

Reform. HUD will institute "section-of-the-Act" accounting by FY 1991.

Action. Administrative

FHA-5. Require Region-by-Region Accounting

Background. HUD operates through ten regional offices around the country. The Regional Administrators are responsible for the management of programs in their areas; they allocate staff, set priorities, etc. Yet they are told nothing of the financial conditions of operations in their regions because HUD produces no surplus/deficit reports broken down by region. The Comptroller General of the GAO cited this deficiency in his September 27 report to the Senate Banking Committee.

This would be analogous to a division president at General Motors not knowing his division's finances, and his superiors not knowing either. Accountability is impossible.

Specific Example. Five of the regional housing directors were recently asked to name the top three causes of FHA losses in their regions. None could; in fairness, such information is a Headquarters responsibility, and Regional Administrators have continually asked for better information.

Reform. HUD will institute Region-by-Region accounting for FY 1991.

Action. Administrative

FHA-6. Institute Processing Improvements

Background. FHA processes over one million applications per year. It services over 6.8 million policies. Yet the capabilities and integration of FHA's processing and computer systems are not, to be kind, modern. Major upgrades are necessary in all systems, and the distribution of processing functions in the field require rationalization to improve efficiency.

Specific Example. FHA's operations are split among four mainframe computer systems in four locations and four languages. It is little wonder that accurate information is so hard to assemble and that processing delays so common.

Reform. (i) HUD will fully integrate all FHA systems by FY 1992. This will either require a new mainframe to replace the current four, or a major software and communications integration effort. (ii) HUD will institute an Assistant Secretary-level review committee to set computer budget priorities. This committee has already begun work under the direction of the Under-secretary. (iii) HUD will review field processing operations for potential economies of scale in consolidation of processing functions.

Action. Legislative Proposal

2. SINGLE-FAMILY HOUSING: Back-to-Basics

FHA-7. Prohibit Private Investors

Background. FHA's single-family insurance programs are designed to provide homeownership opportunities for families who will occupy their own homes. FHA does not exist to provide profit opportunities to private investors. Investors are much more likely to walk away from their homes in an economic downturn and are responsible for the majority of the fraudulent schemes in FHA programs.

Specific Example. Investors are only a small portion of FHA's business, but a significant source of its troubles. In 1988, investors accounted for only 2.5% of FHA's new policies, and roughly 15% of the losses. Most of the defaulting loans were written in earlier years. One group of private investors in Denver owned 750 FHA homes, and defaulted on every one of them.

Reform. In the future, private investors will be excluded from FHA insurance of single family homes they do not occupy. Still accepted would be public purpose investors, such as state and local housing finance agencies and non-profit housing providers. Multi-unit owner-occupied structures also will be permitted, as for example a family occupying one unit of a duplex while renting out the other.

Action. Legislative Proposal

FHA-8. Prohibit Dealers and Loan Brokers from Originating Title I Home Improvement Loans

Background. Currently, home improvement contractors (for example, exterior siding salesmen) help their customers complete and submit Title I loan applications for the work they do. Similarly, loan brokers earn fees by obtaining Title I loans for borrowers. The inherent conflicts of interest in these arrangements are obvious. The scrupulous contractor can advance its interests at FHA's expense.

Specific Example. Home improvement contractors have been known to "help borrowers qualify" by inflating their incomes or hiding debts. Contractors often do shoddy work or overcharge. Loan brokers have assisted borrowers in

obtaining Title I loans for ineligible items (e.g., personal loans, swimming pools, debt consolidation). One loan arranged through a loan broker was used to finance the borrower's divorce--even though the application stated that it was for home improvements.

Reform. Dealers and loan brokers will be prohibited from assisting in the preparation or submission of Title I Home Improvement loans.

Action Required. Legislative

FHA-9. Restructure Title I Manufactured Home Loans Program

Background. In current practice, dealerships for manufactured homes can commit FHA to insuring loans on manufactured homes (mobile homes) that they sell. The lenders in between the dealer and FHA have not questioned most applications. Again, a conflict of interest exists: the salesman has an interest in qualifying the applicant in the face of adverse credit criteria, and has incentive to inflate the mortgage amount. Numerous cases of fraud have been discovered. The manufactured home loan insurance program has cost FHA and GNMA over \$500 million in recent years.

Specific Example. A common scheme was for a dealer to finance the purchase of the furniture as well as the home itself (an accepted practice in the industry) then take back some of the furnishings as the "down payment".

Reform. FHA, GNMA and the manufactured housing industry will meet to revise and restructure the lending process for FHA manufactured housing home insurance.

Action Required. Regulatory

FHA-10. Restrict Second Home Loans

Background. Under existing law, an FHA borrower can qualify as an "Owner-occupant" for more than one home. In addition to a "principal residence" that is the borrower's primary home, he can obtain an FHA loan for a "secondary residence" which he occupies for part of the year. HUD has administratively required a 15% downpayment on secondary residences.

Specific Example. The most common form of "secondary residence" is a vacation property owned by a family wealthy enough to afford a beach house or a ski lodge. In effect, these secondary residences are actually high-risk investment properties that double as a weekend retreat for the owner. FHA should not be used to insure these sorts of properties.

Reform. In the future, FHA will only insure second homes in bona fide hardship cases (e.g., where a family moved to a new area for purpose of employment and had been unable to sell their existing home -- or where a second home could be justified on the basis of seasonal employment). However, FHA will not insure second homes used for investment or vacation purposes.

Action. Legislative Proposal

FHA-11. Require Credit Checks for Loan Assumptions

Background. FHA loans are currently assumable without restriction: an owner can hand their house keys to anyone they wish and FHA is liable. For investors, current law requires a credit check if the transfer is done in the first two years of a loan. Monitoring has been lax, and abuse has been common. "Straw buyer" fraud, "equity skimming", and unsuitable buyers have been particular problems.

Specific Example. In Houston, two investors advertised in newspapers that they would "assume" FHA loans from borrowers who were unable to continue making payments. The borrowers actually paid these individuals \$1,000-\$3,000 to take title to their property, believing that the sale would protect their credit rating. Instead, the investors rented the properties and never paid the mortgage. In dozens of cases, the investors pocketed the rents, FHA paid the claim and suffered a loss and the original borrowers found themselves disqualified from buying new homes.

Reform. All buyers assuming an FHA loan will be required to be checked for history of FHA-related problems, and a basic credit check. A full underwriting analysis will not be necessary.

Action. Legislative Proposal

FHA-12. Terminate Title X

Background. Of the 58 Title X Land Development Insurance policies that FHA has endorsed since 1977, 25 have defaulted. Losses are estimated to total almost \$100 million. The program was designed to help develop subdivisions, but went to build highly speculative upscale residential communities with little regard for affordable housing.

Specific Example. One defaulted Title X loan was used to build a development on a golf course in Palm Desert, California.

Reform. The Title X Land Development Insurance Program will be terminated through rulemaking at HUD, with a request for legislation to officially repeal approval.

Action. Legislative Proposal

FHA-13. Provide Authority for Regional Underwriting Criteria

Background. America's economy, and housing markets are becoming increasingly regionalized. Regional economies can be isolated from the rest of the country, as recent experience in the oil-producing states has demonstrated. Yet FHA's regional directors do not have the flexibility to respond to special needs in their regions or the control speculative excesses.

Specific Example. In Houston, the local office owned over 5,000 repossessed homes, yet continued to fuel the soft market with new insurance for speculative investments in new subdivisions.

Reform. Limited authority will be given to regional offices to adjust underwriting criteria given the needs imposed by local conditions. The limits of such authority will be specified in regulation.

Action. Regulatory

FHA-14. Review Incontestability Policy in Cases of Fraud

Background. FHA does not contest claims for payment unless it has grounds to refuse payment because of lender fraud. There are gray areas, however, where the lender was involved in a fraud perpetrated by the

mortgagor, or actively knew of it and did nothing. FHA needs to clarify its position on such cases, both to free itself to pursue fraudulent lenders and to reassure the secondary market of its basic incontestability policy.

Specific Example. Mortgage companies have knowingly originated large numbers of fraudulent loans for sale to other mortgage bankers. The purchasing investor then discovers that the FHA mortgage insurance premium hasn't been paid or the loan hasn't been endorsed for FHA insurance. In one fraud case, a lender purchased several hundred mortgages that are not eligible for FHA insurance because they were fraudulently closed. The original lender has since gone out of business.

Reform. A formal policy will be developed by the FHA Commissioner, the GNMA President and the HUD General Counsel regarding claims contestability in cases of known fraud.

Action. Administrative

FHA-15. Require State or HUD Certification of Appraisers

Background. Currently, there are no training requirements for appraisers in some FHA programs, although some have experience requirements. FHA's whole appraiser qualification policy lacks consistency and minimum standards. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) requires states to create certification processes for appraisers in their states.

Specific Example. Area Management Brokers (AMBSSs) are private contractors (like closing agents) who are delegated the task of setting the asking price for FHA's property sales, yet they need no valuation credential and in fact have a financial interest in setting an unreasonable price.

Reform. Appraisers involved in the underwriting of FHA programs will be required to be certified under the new state certification rules subject to applicable Federal acquisition requirements. Area management brokers will be required to be certified appraisers, or undergo standardized FHA valuation training.

Action. Regulatory

FHA-16. Control Quality of Program Participants

Background. FHA has in the past ten year delegated a wide variety of its processing activities to thousands of widely scattered firms - mortgage bankers, closing agents, area management brokers, fee appraisers, etc. The quality of FHA's business depends on the quality of this infrastructure. To the extent the strongest institutions avoid FHA (because of slow service, inappropriate products, etc.), FHA will find itself having to spend more time monitoring and controlling a weaker network.

Specific Example. In 1988, only two of the nation's top ten mortgage lenders did significant business with FHA programs.

Reform. Develop and implement long-term strategic plan to develop the quality of FHA products, improve service to large financial institutions, and undertake marketing efforts designed to strengthen diversity, capital requirements, and accountability of insurance distribution networks.

Action. Administrative

3. MULTI-FAMILY HOUSING: Sound Financial Basis

FHA-17. Coinsurance Reforms

Background. In light of the unacceptable losses (\$960 million in 1988 with future losses likely) resulting from past overmortgaging practices. Secretary Kemp in May placed the Coinsurance program under a 120-day moratorium to new entrants and study period. Problems in coinsurance industry mirrored those of the S&L industry: irresponsible lending, low capitalization, poor business analysis, overmortgaging and weak enforcement.

Despite these huge losses, the coinsurance program, properly reformed, can make a substantial contribution toward our affordable housing goal. For example, the average coinsurance mortgages are \$26,000 and \$47,000 under the refinancing and prediction programs, respectively (as compared to an average \$62,000 single family FHA mortgage). Such mortgages are affordable for persons with incomes below the U.S. median. Over 332,000 housing units have been financed under coinsurance.

Specific Example. DRG Funding Corporation was suspended by Secretary Kemp on (March 26, 1989). It had experienced defaults on 99 of its 200 loans, presenting FHA with \$639 million in claims out of \$990 million in total lending. Charges of improprieties are now being investigated by the FBI.

Reform. HUD is preparing a reform package which is being released separately. It provides, through regulation, for (i) improved quality standards for coinsurers, including more stringent entry standards, higher capital requirements, and new financial disclosure requirements, (ii) higher cash requirements of developers, and (III) stronger management controls, underwriting standards, and monitoring at HUD.

FHA should not subsidize developers of middle-income housing. FHA will pursue the operation of the coinsurance program on a self-supporting basis in order to avoid the use of insurance losses as uncontrolled subsidies.

Action. Regulatory

FHA-18. Transfer Hospital Mortgage Insurance

Background. Although HUD is liable for losses in its hospital insurance program, the Department of Health and Human Services (HHS) makes all of the underwriting decisions, monitors the program, and services the loans. HUD therefore has all of the financial responsibility, but none of the control. It also has had no expertise in the health care field, which is undergoing nationwide financial difficulties. For 1988, GAO recommended that FHA reserve \$275 million against losses on hospital insurance.

Specific Example. \$2 billion of FHA's total \$4.2 billion hospital insurance liability is concentrated in New York. A rapidly deteriorating healthcare market in that state leaves many of these hospitals in a distressed condition.

Reform. HUD proposes transferring the Section 242 Hospital Insurance program and related Section 241 supplemental insurance programs to HHS. Such policies are more suited to HHS, and do not belong in a housing insurance fund: financial assessments of housing programs should not be confused with health-care programs.

Action. Legislative Proposal

**FHA-19. Revise Property Disposition Requirements for
Non-subsidized Multi-family Projects**

Background. If FHA takes possession of a multifamily project through foreclosure, HUD is required to make it available as low or moderate income housing. This means that either (i) the project's value is sharply reduced, thereby causing losses in the insurance fund, or (ii) provide project-based rental assistance to the project whether needed or not. There is no fair-share allocation or competitive process to determine the need for HUD rental subsidies in that locality, as compared to the need in other localities.

Specific example. For example, when a HUD property is sold in Houston, where vacancy rates are over 10%, HUD is required to provide 15-year Property Disposition Section 8 funds irrespective of vacancy rates. HUD does not have an opportunity to allocate those same funds to "tight" rental markets where affordable housing is most needed.

Reform. HUD needs the flexibility to avoid waste of subsidies. Upon the sale of a property, HUD will be able to allocate tenant-based subsidies (certificates and vouchers) to qualifying project occupants in markets with high vacancy rates, and reserve project-based assistance for projects in markets with low vacancy rates. Additionally, the requirement that HUD provide rental subsidy assistance for vacant units in previously non-subsidized projects should be removed.

Action. Legislative Proposal.

FHA-20. Revise Multi-Family Property Disposition Procedures

Background. No procedures are in place for determining the method of disposition for properties in the subsidized HUD-held or HUD-owned multifamily portfolio. The profit potential for the sponsor, the future fate of the tenants, and the cost to the federal government may be significantly affected by a decision to structure a negotiated sale to a qualified sponsor rather than initiate a competitive bid procedure.

Specific example. Under present policy, negotiations may be initiated by a prospective purchaser of a low-income housing project before HUD has given full consideration of other offers. In the absence of competition, an award granted by HUD to a housing sponsor through a negotiated sale may allow excessive amounts be conceded to the sponsor.

Reform. Develop and implement criteria for decisions leading to the disposition of property in a negotiated sale. Establish when to initiate a competitive bid procedure. Develop and implement a format to consistently document the application of the criteria.

Action. Regulatory and Administrative

FHA -21. Review Multi-Family Program Terms and Premiums

Background. Mortgage insurance premiums often do not provide adequate compensation to HUD for the risk associated with insuring multi-family housing. The potential losses incurred are not balanced with the premium received, jeopardizing the stability of the insured portfolio.

Specific Example. Multi-family full insurance programs enlist a "soft-market policy" to insure properties in regions currently experiencing high vacancy rates. The policy allows insurance to be committed for those properties in smaller sub-markets that can be successfully underwritten, but does not allow an increase in the premium charged to cover the additional risk.

Reform. An actuarial study of HUD program performance will be produced to provide a basis for interpreting the additional risk associated with meeting important social objectives. Program and policy changes will be adopted to prospectively equate the risk to the insurance premium and the social benefit.

Action. Administrative

FHA-22. Amend Multi-Family Mortgage Foreclosure Act

Background. Foreclosure proceedings for multi-family properties acquired by GNMA are lengthy, increasing the holding costs associated with the portfolio.

Specific Example. GNMA is currently suffering losses on the portfolio of co-insured multifamily properties acquired from suspended co-insuring lenders, due to their inability to foreclose and sell the properties in a timely manner.

Reform. Extend the expedited non-judicial foreclosure procedures now available for FHA multi-family properties to multifamily properties acquired by GNMA.

Action. Legislative Proposal.

Lehmann Li dropped this
off and suggested you
read it ...

howe

Document Originally
Attached to
Following Page

THE WHITE HOUSE

WASHINGTON

October 4, 1989

MEMORANDUM FOR SECRETARY BRADY

FROM: LEHMANN LI 

SUBJECT: EPC Meeting -- October 5

The Economic Policy Council will hold its 17th meeting on Thursday, October 5 at 2:00 pm in Room 180 of the Old Executive Office Building. The Roosevelt Room will be used for a ceremony with the President. The EPC will consider the telecommunications issue.

Secretaries Mosbacher and Dole, Governor Sununu, Dick Darman, Carla Hills, and Michael Boskin will join you as principals. Dick McCormack will represent Secretary Baker. Jack Parnell will represent Secretary Yeutter, who is travelling. Elaine Chao will represent Secretary Skinner. Jim Rill, Assistant Attorney General for Antitrust, will represent the Attorney General, who is recused on this issue.

Telecommunications

The EPC will review a complex and controversial issue tomorrow: telecommunications legislation. This issue has important implications for a range of interests, including the Regional Bell Operating Companies (RBOCs), long-distance companies, newspaper publishers, telecommunications manufacturers, and cable television companies.

We need to review this issue now because as soon as the House Energy and Commerce Committee reports a Clean Air bill, Chairman Dingell will turn his attention to the Swift-Tauke bill, which would permit the RBOCs to provide information services and manufacture telecommunications equipment.

I believe that the Administration should base its decision on whether to support legislation in this area and, if so, what type of legislation to support on the following three key policy issues:

1. Will permitting RBOCs to provide information services increase or decrease competition in that market?

It is clear that the information services market will grow in the future. What is unclear is whether RBOC entry into that market will accelerate or slow down future growth.

The RBOCs argue that they can develop innovative information services. For example, because they already have the information, RBOCs argue they can develop efficient and valuable services such as "electronic yellow pages." The RBOCs argue that their entry is needed to help create a mass market for information services, which would generate economies of scale.

Opponents argue that because the RBOCs monopolize local telephone service, they can discriminate in favor of their own information services and against other providers. Opponents also argue that the RBOCs can use revenues from their monopoly of local telephone service to subsidize their information service activities.

The EPC must decide whether there exists safeguards that can protect consumers and information service providers from discrimination and cross-subsidization by the RBOCs.

2. Will permitting RBOCs to manufacture telecommunications equipment increase or decrease competition in that market?

U.S. trade in telecommunications equipment has declined from a \$580 million surplus in 1981 to a \$2.6 billion deficit in 1988. Clearly, macroeconomic factors played a critical role in this trend.

However, the RBOCs argue that their inability to manufacture telecommunications equipment has contributed to this decline. Perhaps more important, the RBOCs argue that if they could conduct research and development activities in this area, the U.S. would benefit from an annual increase of \$3-5 billion in additional R&D investment.

Opponents argue that manufacturing by the RBOCs would not improve our trade position because the deficit is caused primarily by imports of low-end products like handsets and the RBOCs would probably not manufacture these types of products in the U.S.

3. Should the future of the telecommunications market be determined by a federal district court or by the Federal Communications Commission and the Congress?

This issue is somewhat clearer than the first two issues. Most objective observers would agree that it is better public policy to vest authority for determining the future of the U.S. telecommunications industry in the FCC and the Congress, instead of a single federal judge and three law clerks -- no matter how good they are.

Clearly, the Administration faces significant political risks if it chooses to wade into this debate. To make a sound judgment, though, I believe it is important that the EPC decide the above three issues to determine how significant -- if at all -- are the benefits to the economy from changing the status quo.

There is no need to force a consensus at tomorrow's meeting, if there does not exist one. We could have a second meeting on this issue next week, if necessary.

Given the political environment, it may be better if the EPC did not hold a meeting with the President on this issue. Instead, the President could make a decision through a decision memorandum from you.

Secretary Mosbacher will make a 10-15 minute presentation.

Suggested talking points

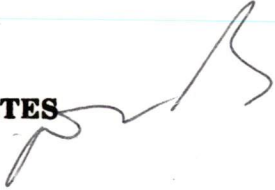
- o The EPC is meeting today to review telecommunications legislation.
- o The House Energy and Commerce Committee and the House Judiciary Committee have been holding hearings on legislation that would permit the Bell operating companies to manufacture telecommunications equipment and provide information services.
- o The Energy and Commerce Committee plans to move legislation this fall.
- o I suggest that the EPC focus on three issues.
- o First, will permitting the Bell operating companies to provide information services increase or decrease competition in that market?
- o Second, will permitting the Bell operating companies to manufacture telecommunications equipment increase or decrease competition in that market?
- o And third, who should have jurisdiction over future regulation of the U.S. telecommunications market -- the courts or the FCC and Congress?
- o Bob, can you please lead us through this issue?

AC has seen ✓

THE WHITE HOUSE
WASHINGTON

TO: ANDY CARD

FROM: DAVID Q. BATES



FYI



Action



Comment

July 13, 1989

MEMORANDUM FOR DAVID Q. BATES

FROM: DANIEL R. HEIMBACH *D. Heimbach*
SUBJECT: Meeting report -- Health Policy WG

The DPC Health Policy Working Group met yesterday afternoon to discuss confidentiality and discrimination as they relate to AIDS. Our discussion on these topics was prefaced on the President's campaign commitment to "ensure against discrimination [against persons with AIDS], particularly in our schools and the workplace." And his belief that "persons with AIDS must be allowed to work as long as they are functionally capable."

Dr. James Allen, Director of the National AIDS Program Office, presented an overview of the various ways in which the State have addressed these issues. Following Dr. Allen's presentation, Kevin Jones, Deputy Attorney General for the Office of Policy Development, reviewed the anti-discrimination provisions of the Americans with Disabilities Act as they would apply to persons with AIDS or who are HIV-positive. There was time for discussion after each presentation.

Some of the principle points covered during the meeting were as follows:

- o The ADA anti-discrimination provisions cover persons with AIDS and, if passed, fulfill the President's campaign promise. There is no plan to go beyond what the ADA will accomplish on AIDS discrimination.
- o The level of public fear and hysteria which follows discovery of a new disease has been much higher, and has persisted for a much longer time for AIDS than for other diseases. Some of the hysteria has abated, but it is still very high. It is less overt than it used to be, but is manifested in discrimination.
- o The issues of discrimination and confidentiality are closely linked. If we can deal effectively with the discrimination problem, confidentiality lessens in importance. Confidentiality is a major issue where discrimination is severe.
- o 1/2 the States offer no legal protection against AIDS discrimination, although all States offer some antidiscrimination protection for the handicapped.

The next meeting of the Health Policy Working Group will be on Tuesday, July 18, 1989, and will continue our treatment of food safety issues. Another meeting is planned for later in July to begin work on issues related to payment for the cost of AIDS treatment.

cc: Stephen I. Danzansky
William L. Roper
Kenneth P. Yale

file

THE WHITE HOUSE

WASHINGTON

April 28, 1989

MEMORANDUM FOR GOVERNOR SUNUNU

THROUGH

DAVID BATES 

FROM

COOPER EVANS 

SUBJECT

EEP

The question of granting EEP to the USSR on 1.5 MMT of wheat has escalated into a political problem. Domestically, the situation threatens major damage to the credibility in rural America not only of Secretary Yeutter but of the President as well. Substantial damage has also been done to our trading relationship with the Soviets. More important, I believe we are causing a serious internal problem for them at a most inappropriate time. This will be long remembered.

The Administration has lost control on this issue. In my judgment, only a strong Presidential response can now regain the initiative and contain the damage.

Following is a listing of statements, perceptions, etc. circulating in Congress, trade circles, and the press that provide some insight into the seriousness of the situation.

- * Yesterday's hearing on EEP by Rep. Glickman's agriculture subcommittee in the House was severely critical of the Administration's handling of the Soviet request. Republicans took the lead in being critical. There was absolutely no support for the Administration. 
- * Senator Dole yesterday wrote the President urging quick approval of an EEP for the Soviets. 
- * Should relations with Congress on this subject continue to deteriorate, the results are totally predictable. They will pass legislation to either:
 - Place EEP decisions exclusively in the hands of the Secretary of Agriculture, or
 - Place export subsidy decisions totally with the private sector through marketing loan provisions for all program crops.

- * Press reports are using terms like "the Bush Administration embargo" or "de facto grain embargo". Such phrases are in sharp contrast to statements by the President during the campaign. (See attached extracts of statements by the President on the need to be "a reliable supplier" and to "not use food as a tool of foreign policy".)
- * In rural areas a grain embargo is an issue equivalent to the President's pledge not to raise taxes. To the extent that the lack of new EEP initiatives are perceived as an embargo there will be long-lasting domestic political difficulty. The 1980 Carter grain embargo is still viewed as a part of the reason we've lost the export markets of the 1970s.
- * The Soviets have broken off the LTA talks and gone home in a huff. 7
- * Private-sector intelligence sources say the Soviet domestic food problems are politically very serious:
 - There is less food on the shelves than at any time since Gorbachev came to power.
 - Part of the problem lies in the Soviet decision to decentralize control of their railroad system to individual Republics. The predictable result is that rail cars never return to the point of origin, and stocks pile up at ports.
 - The most serious problem is their failure to foresee all of the results of allowing farmers to control a small share (10% ?) of their wheat in private-sector channels. The assumption was that this grain would eventually flow to flour milling. Late in the crop year they discovered to their dismay that 4 MMT has disappeared -- it was fed to livestock. 7
 - There have been personal appeals to the U.S. by individual Soviets deemed to have the most influence here, and these have been rebuffed.
 - Failure to respond to these needs will once again be interpreted as evidence that the U.S. is not a reliable supplier, and basically an enemy not a friend. Other customers will also conclude that the U.S. cannot be counted on as a reliable source of food. ✓

- Worldwide wheat production is expected to increase this year. This gives the U.S. a very brief period of time to be in the sole position of responding to the special needs.

The public awareness of today's "planned" EPC meeting with the President to discuss this issue is leading to rising expectations -- just as occurred on Wednesday.

- * At least one commodity news service has said there will be an announcement of a EEP for the Soviets today, in a joint press conference with the President and Secretary Yeutter.
- * The absence of an announcement of an EEP for the Soviets or a definitive statement from the President on Administration policy serves to confirm the perception of a halt in the EEP program.
- * Political considerations override the merits of a more deliberative policy review process.
- * Speculation on reasons for the "suspension" of the EEP program include:
 - OMB halted the program due to budgetary concerns.
 - The program has been ended due to concern about inflation and the effect on domestic prices.
 - Aggressive use of the EEP might derail our efforts in the GATT talks.
- * The British Minister of Agriculture was correct when he stated that the U.S. will not use EEP as leverage in the GATT talks.
- * Vice President Quayle's statement in Australia of no new EEP initiatives for wheat is accurate.

Recommended action:

- * Quickly agree to a new EEP initiative that can be announced for the Soviet Union. The amount could be as low as 500,000 MMT and the bonus could be only a few dollars a ton.
- * The President should publicly express anger with the irresponsible misrepresentation of his position on this issue. He should repeat the pledges he made during the campaign.

BUSH STATEMENTS RELEVANT TO THE EEP

EEP

"And I'm proud that our export enhancement program has led to a dramatic rise in export sales of agricultural commodities. In the years ahead, I don't want to see our farmers lose market share that they worked so hard to win. The Bush Administration will help farmers export more crops, ... the top agricultural priority of my Administration will be to expand our farm markets, both domestic and foreign. And we need to regain markets that were lost because of the Carter grain embargo, and we need to take back markets that have been lost through unfair competition."

7/11/88 SPEECH

EMBARGO/SOVIETS

"... never go back to that Democratic grain embargo that knocked the markets right out from under us and made Mr. Gorbachev say to me, when he was here, 'How do I know you're reliable suppliers?' We should never go back to that. And we ought to expand markets abroad."

10/13/88 DEBATE

During his speech to the crowd, he vowed, "There will be no more grain embargoes against the Soviets or anyone else."

5/7/88 BILLINGS GAZETTE

"I would also guarantee to our allies and other overseas customers that the United States will remain a reliable supplier. I am categorically opposed to grain embargoes."

7/11/88 SPEECH

... "there is enormous opportunity for trade" with Eastern bloc nations and promised "not to use food as a political tool" ...

9/26/88 UPI

Bush referred to Carter's 1980 embargo against selling subsidized wheat to the Soviets to protest the invasion of Afghanistan. "The embargo was unpopular with farmers, hurt more than the Soviets, who simply bought their grain elsewhere."

9/29/88 UPI

"... And Gorbachev, turned to me and said, 'How do I know you're reliable supplier?' Well, you know what he was talking about ... obviously referring back to the grain embargo. It made a lasting impression on me, that one little exchange..."

7/11/88 SPEECH

Raising the specter of another grain embargo, George Bush declares yesterday that Michael Dukakis could reconsider selling subsidized grain to the Soviets and pledged: "I will not use food as a foreign policy weapon."

9/14/88 NEW YORK DAILY NEWS

" ... present to Mr. Gorbachev the views of American agriculture, and giving me an opportunity to weigh in and say we are a reliable source, ... that's important for the Soviets to hear."

12/12/87 AP

" ... We will not use food as a diplomatic tool. We are rebuilding confidence in American agriculture in terms of reliability in foreign markets and we're going to continue to do that ... "

4/18/89 AG RADIO ADDRESS

~~CONFIDENTIAL~~

WHITE HOUSE STAFFING MEMORANDUM

DATE: 5/1/89

ACTION/CONCURRENCE/COMMENT DUE BY: -----

SUBJECT: _____

ECONOMIC POLICY COUNCIL MEETING ON MAY 2

	ACTION FYI			ACTION FYI	
VICE PRESIDENT	☐	☒	MCCLURE	☐	☒
SUNUNU	☐	☒	NEWMAN	☐	☐
SCOWCROFT	☐	☒	PORTER	☐	☒
DARMAN	☐	☒	STUDDERT	☐	☐
BATES	☐	☒	UNTERMAYER	☐	☐
BREEDEN	☐	☒	BOSKIN	☐	☒
CARD	☐	☒	_____	☐	☐
CICCONI	☐	☒	_____	☐	☐
DEMAREST	☐	☐	_____	☐	☐
FITZWATER	☐	☐	_____	☐	☐
GRAY	☐	☒	_____	☐	☐
HAGIN	☐	☐	_____	☐	☐

REMARKS:

The attached is for your information.

RESPONSE:

UNCLASSIFIED UPON
REMOVAL OF CLASSIFIED
ATTACHMENTS

RM 05/14/25

~~CONFIDENTIAL~~

James W. Cicconi
Assistant to the President
and Deputy to the Chief of Staff
Ext. 2702

THE WHITE HOUSE

WASHINGTON

April 28, 1989

1989 MAY -1 PM 9:28

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM:

LEHMANN LI 

SUBJECT:

Economic Policy Council Meeting on May 2

The Economic Policy Council will meet at 2:00 pm on Tuesday, May 2. The EPC will meet in the Roosevelt Room.

The EPC will review our overall trade policy. The Trade Policy Review Group has prepared the attached paper for consideration by the EPC.

UNCLASSIFIED UPON
REMOVAL OF CLASSIFIED
ATTACHMENTS

Run 05/14/25

UNCLASSIFIED WITH
CONFIDENTIAL ATTACHMENT

~~CONFIDENTIAL~~

DECLASSIFIED
PER NSC WAIVER, IS00 2021-02
By PUR NARA, Date 05/14/25

TRADE POLICY AND THE U.S. TRADE POSITION

I. INTRODUCTION

Fifty years ago, the United States rejected the protectionist, beggar-thy-neighbor trade policies of the 1930s that contributed to global depression and conflict. Instead, U.S. policymakers embraced the view that trade liberalization stimulates economic growth and that market-oriented rules are essential for American free enterprise to flourish.

The United States, through the General Agreement on Tariffs and Trade (GATT), led the effort to remove the high tariff walls that characterized the inter-war period. U.S. policy stressed reciprocal reduction of trade barriers through the GATT, with the benefits extended internationally through GATT's most-favored-nation clause, which prohibits discrimination among the contracting parties.

This policy of open trade led to sharp reductions in tariffs among industrialized countries. These reductions spurred the U.S. and global economies to grow faster over the last four decades than in any similar period of world history (Chart 1). Real trade grew at unprecedented levels, as did real GNP in those industrial nations that adopted market-oriented policies.

The United States shared fully in the post-War economic expansion. U.S. production has never represented less than roughly 25 percent of global output since World War II (Chart 2).

Today the large and persistent U.S. trade deficit, which averaged over \$100 billion annually in the last six years and reached \$160 billion in 1987 (falling to \$127 billion in 1988), dominates the debate over the direction of American trade policy. Trade policy itself, however, cannot significantly reduce the trade deficit, the causes and cures of which lie in global macroeconomic conditions.

This does not mean that trade policy is unimportant or that the deficit and trade policy are unrelated. On the contrary, the false perception that trade barriers and unfair trade practices have "caused" the trade deficit has weakened support for our fifty-year policy of free trade; such support might disappear entirely were the current period of full employment to give way to recession.

At the same time, the fact that almost three quarters of the aggregate U.S. trade deficit is represented by imbalances with

~~CONFIDENTIAL~~

DECLASSIFIED BY S. Kunitz
DECLASSIFIED ON 0402

~~CONFIDENTIAL~~

2

four key trading partners -- Japan, Germany, Korea and Taiwan-- has generated doubts about U.S. "competitiveness" relative to these countries and led to calls for increased government intervention in the economy to improve the performance of key sectors.

Thus, a review of U.S. trade policy must begin with an analysis of the trade deficit, its causes and its policy implications.

II. THE TRADE DEFICIT

Background: The performance of the U.S. domestic economy in terms of employment, growth and price stability in the 1980s improved relative to the prior decade, despite the growth of trade and current account deficits. In general, the reverse was true for much of the rest of the world, where economic performance worsened relative to the 1970s, despite trade and current account surpluses (Chart 3).

From 1981 to 1988, U.S. real GNP grew at an average annual rate of 3 percent. Inflation fell from double to single digits, and unemployment dropped from 7.5 percent to 5.3 percent. Since November 1982, the U.S. economy has created 20 million jobs; in Europe, new job creation was negligible until last year.

In this same period, the United States experienced a substantial deterioration in its trade accounts. The merchandise trade deficit increased from \$28 billion in 1981 to \$160 billion in 1987, moderating to \$127 billion in 1988. The current account deteriorated from a \$7 billion surplus in 1981 to a \$153 billion deficit in 1987, improving to \$135 billion last year (Chart 4).

The sharp rise in the aggregate trade deficit is the product not of increased trade barriers or ineffective trade policy, but of a number of broader economic factors:

- o In the 1980s, exceptionally strong U.S. demand growth (1981-87: 4.8 percent per year) outstripped the growth of both domestic GNP (4.0 percent per year) and GNP in other industrialized countries; the result was a sharp rise in U.S. imports.
- o At the same time, gross domestic savings (household, business, and government), which had averaged 16.4 percent from 1950-1980, declined to 12.5 percent by 1987, reflecting first the increase in the Federal budget deficit and later a sharp decline in household savings (Charts 5, 6 and 7).
- o Due to insufficient savings, the United States borrowed heavily from abroad and as a result imported substantially more than it exported; foreign capital

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

3

was attracted by strong U.S. demand, tax reform, deregulation and perceptions of America as a safe haven.

- o The resulting trade and current account deficits were exacerbated by several factors that reduced U.S. exports and/or made imports more attractive:
 - The dollar's appreciation from 1980 to 1985;
 - The LDC debt crisis, which curtailed developing countries' imports; and
 - The emergence of the Asian newly industrialized economies (NIEs) -- Singapore, Hong Kong, Taiwan and Korea -- as low-cost suppliers of manufactured goods, who in turn resisted opening their own markets and/or permitting exchange rate adjustment.

Recent Improvement: The U.S. trade and current accounts both improved in 1988 due to a 28 percent (\$70 billion) increase in U.S. exports worldwide. This export surge was attributable to improved G-7 macroeconomic policies, which led to:

- o The reversal of the dollar's earlier appreciation against other major currencies, returning it to pre-1980 levels;
- o Increased domestic demand growth in Western Europe, the NIEs and Japan, which together accounted for 65 percent of the \$34 billion improvement in the 1988 merchandise trade balance; and
- o Slower U.S. domestic demand growth relative to GNP.

Outlook: Despite the 1988 improvement, there is broad agreement that absent significant changes in macroeconomic policy the U.S. trade deficit will decrease only modestly in 1989, while the current account may show no change at all. As a result of the cumulative \$700 billion in U.S. current account deficits incurred since 1982, dividend and interest payments to foreign suppliers of capital increasingly will exceed U.S. income on assets abroad.

Thus merely preventing a worsening of the current account in the future will require continued reductions in the merchandise trade deficit. Balancing the current account will require the United States to run a substantial trade surplus.

This has significant consequences for domestic, foreign and trade policy. First, it is imperative that we maintain our ability to finance the existing current account deficit. U.S. domestic

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

4

policies -- e.g., interest rates, taxes, trade actions -- must promote an environment that continues to attract foreign capital. Protectionist legislation, such as the Bryant Amendment, must be resisted.

Second, we must act to reduce the trade deficit. Doing so, however, will take time and concerted action, for there is no "quick fix" or overnight solution:

- o Domestically, we should close the savings-investment gap through a gradual increase in savings (Chart 8), which would spur growth, rather than through a decrease in investment, which could lead to a recession. Specifically, the budget deficit must be reduced significantly, investment in manufacturing must be increased so as to expand capacity (which is already constrained) and U.S. competitiveness must be strengthened through improvements in education, job training and technology.
- o Abroad, coordination of macroeconomic policies must continue and structural adjustment measures must be taken to enhance the growth and importing capacity of our major trading partners, particularly the four large surplus countries -- Japan, Germany, Korea and Taiwan.
- o Finally, with respect to trade policy, markets at home and abroad must be opened -- and kept open -- to ensure that a trade correction occurs through export expansion rather than import contraction.

III. TRADE POLICY

Objectives: The proper role of trade policy is not to reduce the trade deficit per se, but to reduce trade barriers so that market forces are free to operate and trade expansion can occur. Even if America were running a trade surplus, an activist trade policy would still be necessary.

The purpose of trade policy, as with economic policy generally, is to promote the prosperity and security of the American people and to further an American vision of the world: a vision based on a belief in the rule of law and the efficacy of market-oriented economies.

Trade policy can best serve this purpose by promoting sustained, non-inflationary growth at home and abroad. Such growth depends on an expanding system of open trade, which:

- o Ensures the free flow of goods and services;
- o Increases productivity, real wages and incomes;

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

5

- o Facilitates market-oriented adjustment;
- o Creates new trading opportunities for efficient producers; and
- o Restrains other governments' attempts to gain unfair advantage by manipulating the conditions of competition.

In an environment in which market forces are free to operate, there inevitably will be "winners" and "losers." But a market-oriented economy ensures that the determination of winners and losers accurately reflects relative economic efficiency and consumer preferences.

History shows that American entrepreneurs perform best when challenged by market forces. Trade policy should be used not to insulate them from such forces, but to ensure that their foreign competitors are challenged as well.

Principles: Accordingly, U.S. trade policy should be based on the following principles:

- o Trade policy should open markets not close them, so as to ensure the free play of market forces.
- o Trade policy should not determine who "wins" and who "loses" in the domestic and international economy.
- o High priority should be given to the trade policy implications of foreign policy and national security decisions and vice versa.
- o It is in the U.S. interest to promote a global trading system based upon clear, enforceable rules that apply equitably to all participants.
- o This system of rules should be capable of adapting to changes in the world economy.
- o The development of market-oriented economies should be encouraged and trends toward more open trade reinforced.
- o The United States should seek to combat unfair trading practices, protectionist measures and other trade-distorting policies, both foreign and domestic.
- o Actions to facilitate domestic adjustment should promote U.S. competitiveness and should not represent permanent protection.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

6

These principles should guide the U.S. response to the many issues, such as steel and textiles, already on the trade agenda, as well as the initiatives we take in response to changes in the trading system.

IV. U.S. TRADE STRATEGY

The global trading system is at a crossroads. A number of factors present challenges to, and opportunities for, U.S. trade policy:

- o The existence of non-tariff trade barriers and market distortions which, particularly in the case of Japan, seem to resist correction by the traditional trade policy tools;
- o The Uruguay Round of Multilateral Trade Negotiations, which seeks to strengthen the international trading system;
- o The European Community's (EC) 1992 internal market integration program and the U.S.-Canada Free Trade Agreement, the implementation of which could tip the trading system to further integration or balkanization;
- o The increased use by the EC and the United States of "grey area" measures, such as voluntary restraint agreements, which undermine both the GATT and free market principles by cartelizing industries;
- o The increasing number of trade disputes concerning areas critical to U.S. prosperity -- services, investment, agriculture and intellectual property rights -- which are not adequately covered by the GATT;
- o The increasing recognition in the developing world of the efficacy of market-oriented economic policies;
- o The frequency with which countries violate multilateral norms; and
- o The passage of the Omnibus Trade and Competitiveness Act of 1988, which expands the scope for unilateral action to open foreign markets.

Depending on how these factors are addressed, the global trading system will move either toward further liberalization and integration, or toward protectionism and disintegration into trading blocs.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

7

Given the size of the U.S. market and our historical leadership role, no country has more at stake in, or influence over, the outcome of this struggle than the United States. Accordingly, U.S. trade strategy should aim not merely to open markets, but to do so in ways that maximize support for the trade-liberalizing trends in the global economy. In short, we should allocate our market-opening resources where we can expect the biggest bang for the proverbial buck:

The Uruguay Round. The TPRG agencies unanimously agree that the first priority of U.S. trade policy should be to conclude successfully the Uruguay Round of Multilateral Trade Negotiations by December 1990. These negotiations are intended to strengthen the multilateral system, improve the GATT as an institution, expand market access for trade in goods and extend GATT discipline to new areas of trade, such as services and investment.

The United States has the most to gain from a vibrant multilateral trading system:

- o America is a global power with global interests; we can advance those interests only by being in the forefront of international economic cooperation;
- o American business serves global not just regional markets; to succeed it requires a system of free trade based upon one set of rules not many; and
- o As an economic matter, multilateral negotiations achieve the greatest material good for the greatest number of people.

In addition to strengthening the multilateral system, the Round also directly and indirectly addresses many of the concrete trade policy problems now facing the United States. For example, it helps constrain protectionist tendencies in the EC's 1992 program, encourages developing nations in the Pacific Rim and elsewhere to protect intellectual property rights and lower barriers to U.S. goods and services, and seeks to minimize trade disputes by limiting practices such as the use of export subsidies.

Regional and Bilateral Initiatives. The TPRG agencies unanimously agree that the second priority of U.S. trade policy should be to pursue bold regional and bilateral initiatives that complement our objectives in the Uruguay Round and enable American entrepreneurs to capitalize on the trade-liberalizing trends in the global economy. These initiatives, which require varying levels of resources, should focus on four key areas:

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

8

- o Mexico: The Salinas Administration presents a unique opportunity to promote trade liberalization and to integrate America's third largest export market and the world's eleventh most populous nation into the multilateral trading system. The TPRG agencies agree that prior to the Fall Presidential summit the Administration should negotiate an accelerated Uruguay Round package of trade and investment measures, and should seek to establish a broader framework to facilitate long-term trade liberalization.
- o Japan: U.S. trade interests are frustrated by structural rigidities and trade distortions that restrict access to the world's second largest industrial market. The TPRG agencies agree that the U.S. approach to Japan should be "pluralized" to encompass our major trading partners and should focus on the elimination of structural barriers through complementary macroeconomic and trade policy initiatives.
- o The Pacific Rim: An opportunity exists to implant in the world's fastest growing economies the U.S. vision of market-oriented trade and investment regimes, thereby establishing a powerful paradigm for the developing world. The TPRG agencies agree that the Administration should actively pursue the graduation of the NIEs to developed country status by 1992, and should explore an initiative with ASEAN, as well as the establishment of a regional consultative framework.
- o Western Europe: The EC's 1992 market integration program could tip the global trading system toward further liberalization or protectionism. The TPRG agencies agree that high-level attention should be devoted to ensuring that the 1992 program results in a freer, not a "fortress," Europe. At the same time, the United States should intensify its ongoing efforts to eliminate trade-distorting subsidies and other market access barriers in the EC.

Canada, of course, will also continue to present opportunities for U.S. exports, as well as for trade liberalization. But beyond effective implementation of the U.S.-Canada Free Trade Agreement, the TPRG agencies believe no new initiatives are required.

Domestic Initiatives. A vigorous multilateral trading system supported by complementary market-opening bilateral and regional initiatives will not alone ensure sustained, non-inflationary growth. Rather, these trade policy initiatives must be accompanied by domestic policies designed to strengthen the U.S.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

9

economy and increase U.S. competitiveness. Action must be taken at home on savings, investment, the budget, education, research and development and export promotion. Action must also be taken to keep American markets open.

V. U.S. RESPONSE TO UNFAIR OR UNREASONABLE TRADE PRACTICES.

The foregoing priorities are intended to foster a vigorous multilateral trading system and to ensure that America is prepared to seize the opportunities such a system presents. That system, however, is often strained by disputes involving unfair trade practices, dumping, subsidies, denial of market access and violations of agreements. These disputes frequently occur where international rules do not exist or are unclear. The Uruguay Round provides an opportunity to expand and clarify multilateral disciplines. But in certain instances unilateral action, including section 301 retaliation, is -- and will remain -- the only viable method of advancing U.S. interests.

Such action can have the effect of undermining the very system of rules the United States is trying to promote. Therefore, it should be used selectively, not as an exception to, but as an element of, our overall strategy of supporting trade liberalization and integration. Specifically, section 301 should be used wherever it can force our trading partners to recognize that honoring agreements and abiding by or expanding multilateral disciplines is a less costly alternative than unilateral U.S. action.

The annex to this paper presents an analysis of the policy options for implementing this trade strategy in the multilateral, regional and bilateral, and unilateral contexts. An analysis of domestic policy options is omitted because other studies (e.g., the Department of Commerce-led study on "Innovation, Research & Development and Technology") are addressing these issues in depth.

~~CONFIDENTIAL~~

- Post-war trade liberalization led to rapid growth of world trade (6.2% annual rate).
- Trade spurred an unparalleled expansion of the world economy (4.1% annual growth rate).

Index (1950 = 100)

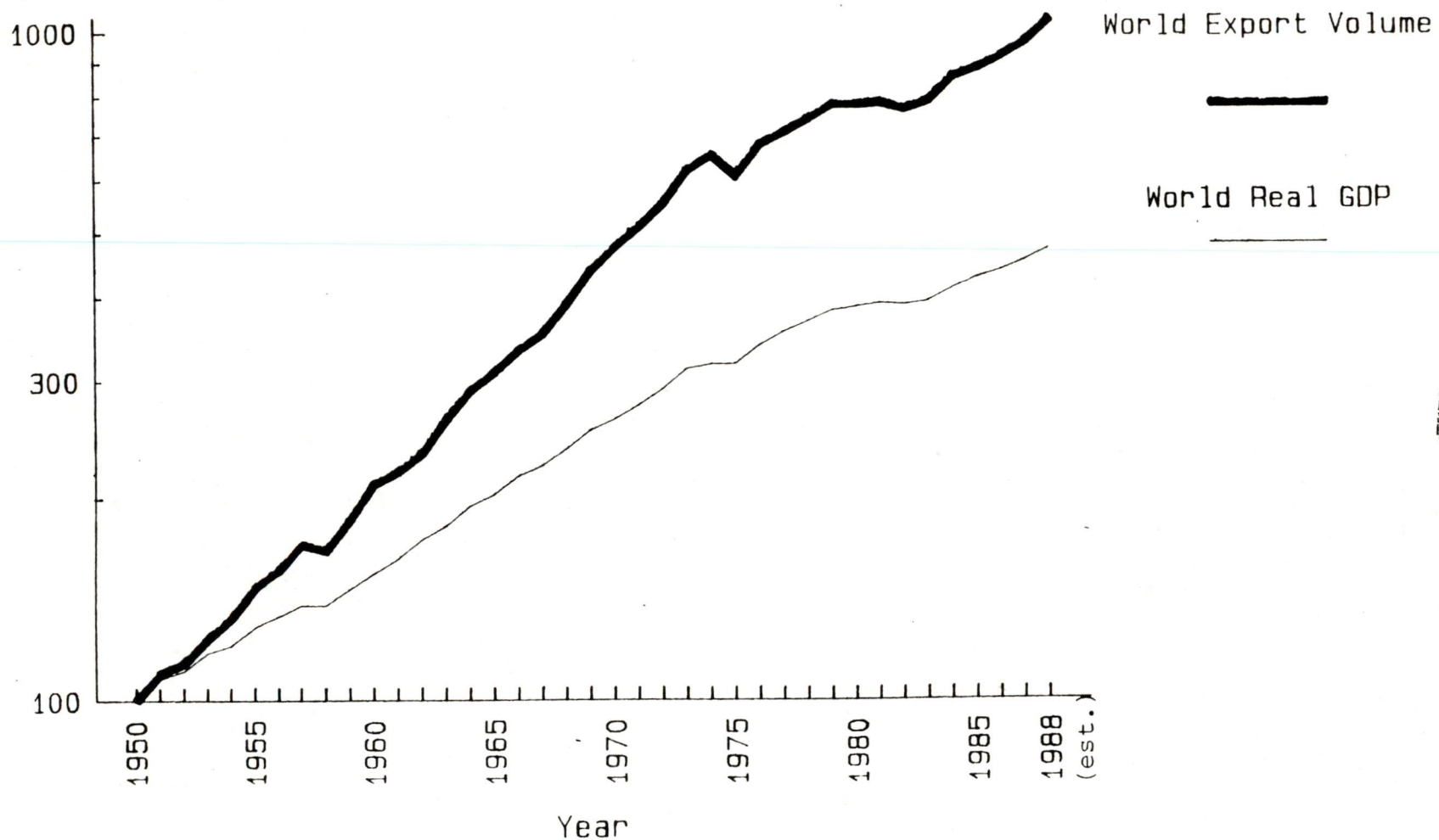


Chart 1

- United States has fully benefitted in the post-war period.
- U.S. share of world GDP fell from artificially high level of earlier post-war period, stabilizing in the mid 1970s and slightly increasing in the 1980s (25 percent to 26 percent).

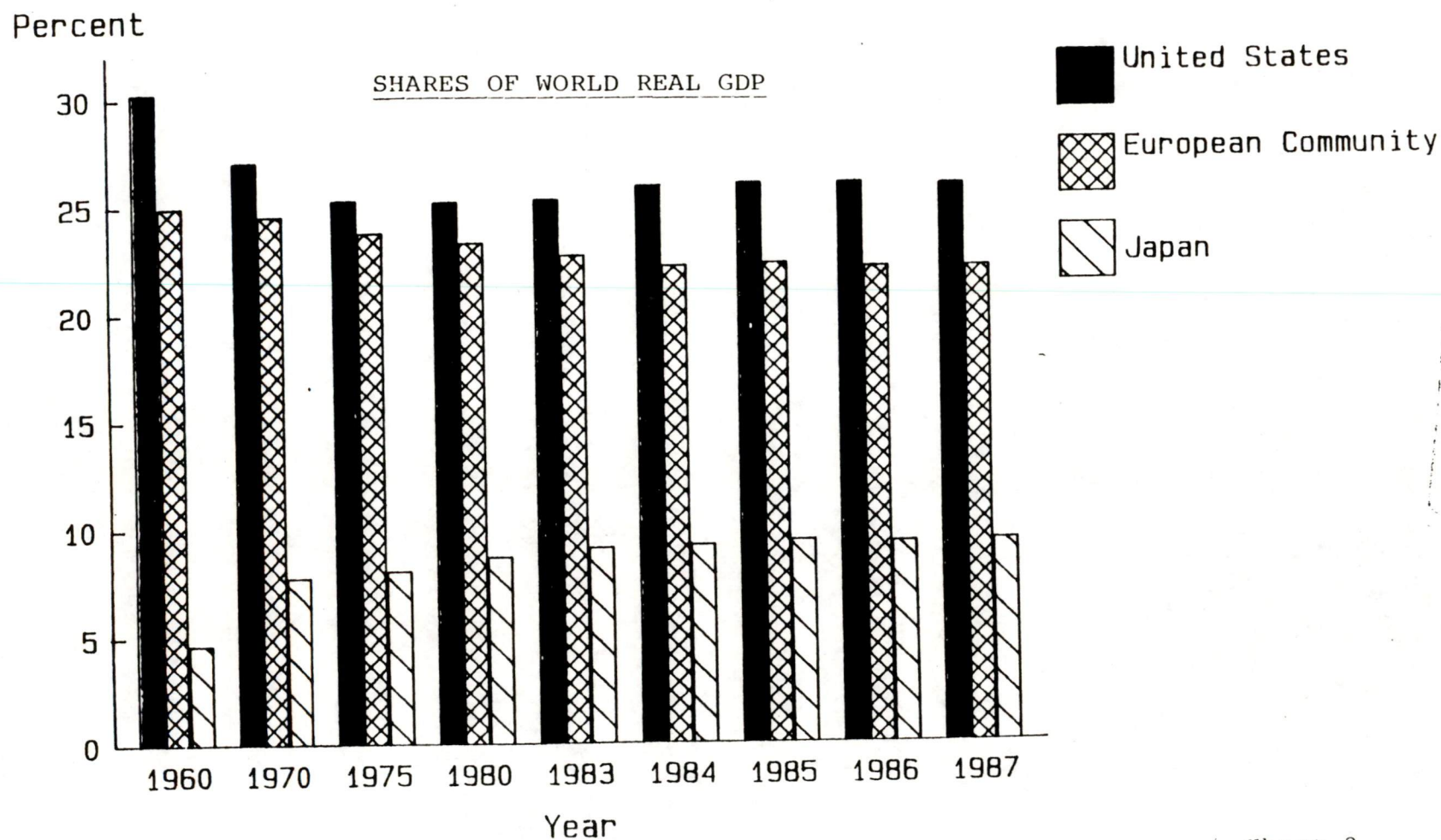
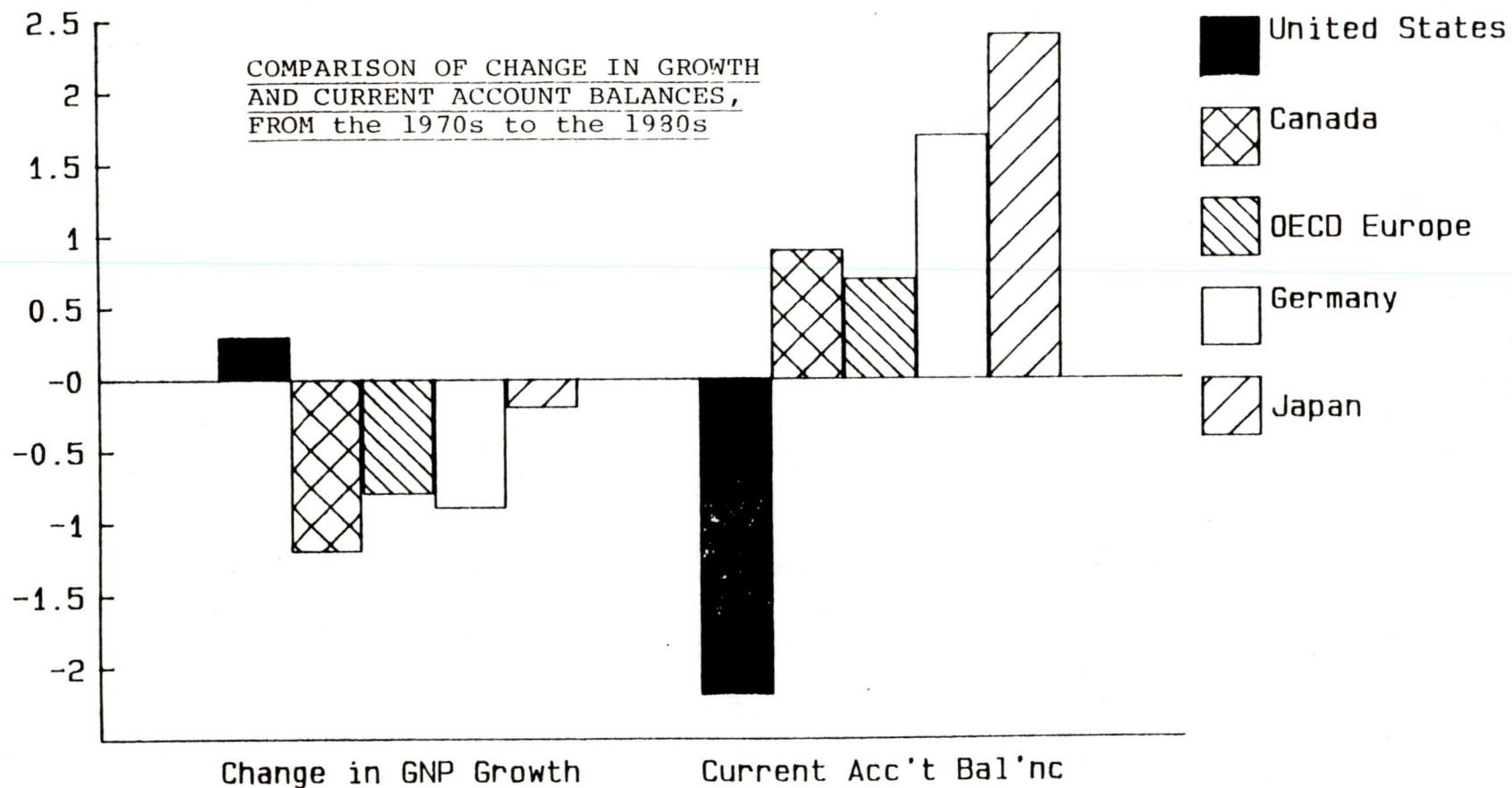


Chart 2

Calculated from 1987 constant dollar data.

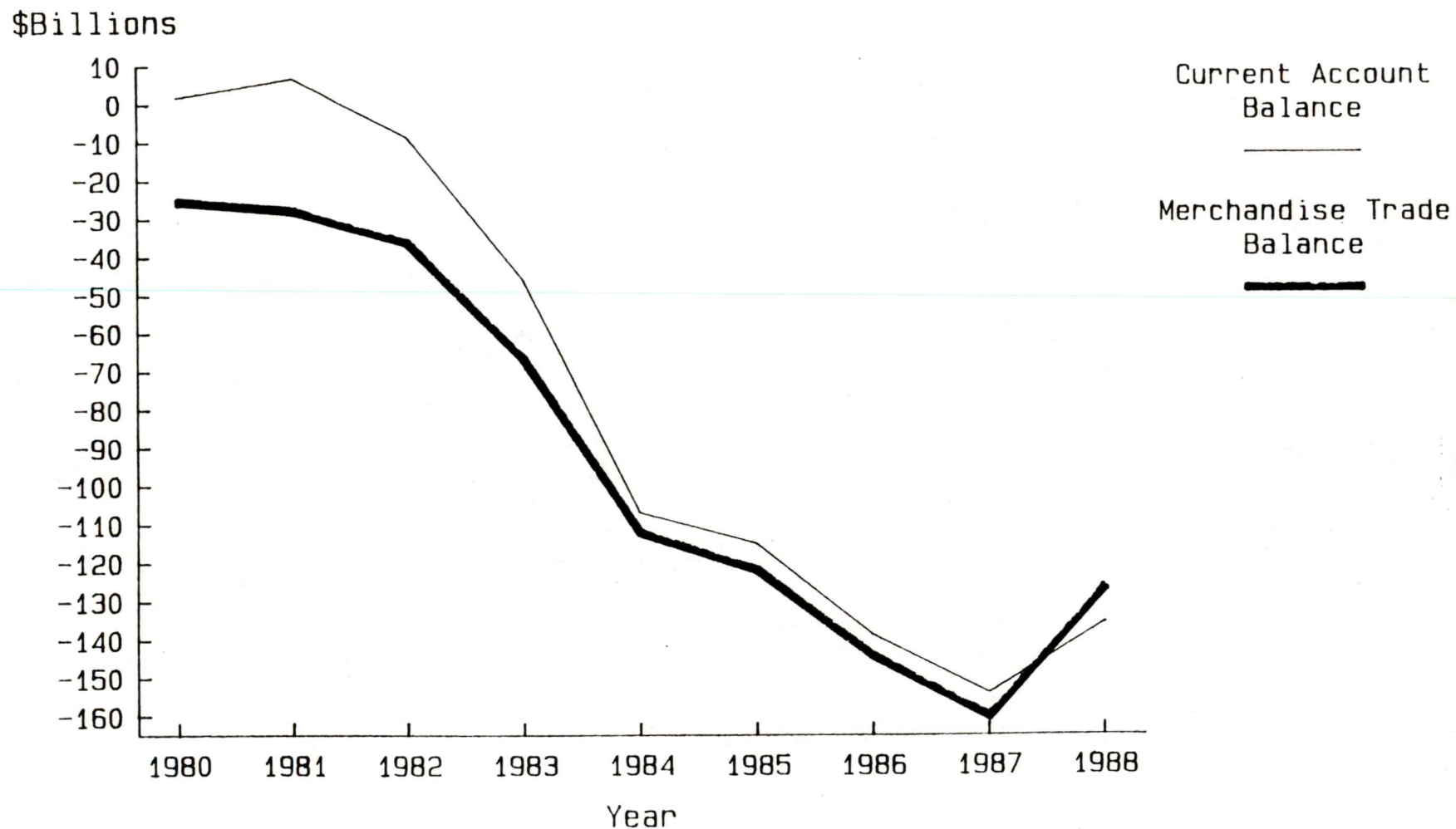
- The U.S. economy grew faster in the 1980s than in the 1970s despite a worsening of the trade and current account balances.
- For Canada, Europe and Japan, the improvement in their current account positions in the 1980s was accompanied by some weakening in growth performance.

Change in Percentage Points



Change in GNP growth rate and current account balance (as Percent of GNP) from 1973-1980 average to 1981-88 average

-- The deficits, which peaked in 1987, are, nevertheless, of concern both for the sustained foreign financing they entail (\$700 billion net in the last 7 years) and the difficulties they pose for the management of U.S. trade policy.



Current account = merchandise and services trade, investment earnings and transfers

Chart 4

- Changes in U.S. or foreign trade policy have little effect on aggregate trade and current account balances which are macroeconomic phenomena.
- Post 1981 gap between desired level of domestic investment and U.S. gross saving opened to an extent unprecedented for the United States in the 20th century.
- Net foreign capital inflows filled the domestic saving-investment gap.

Percent of GNP

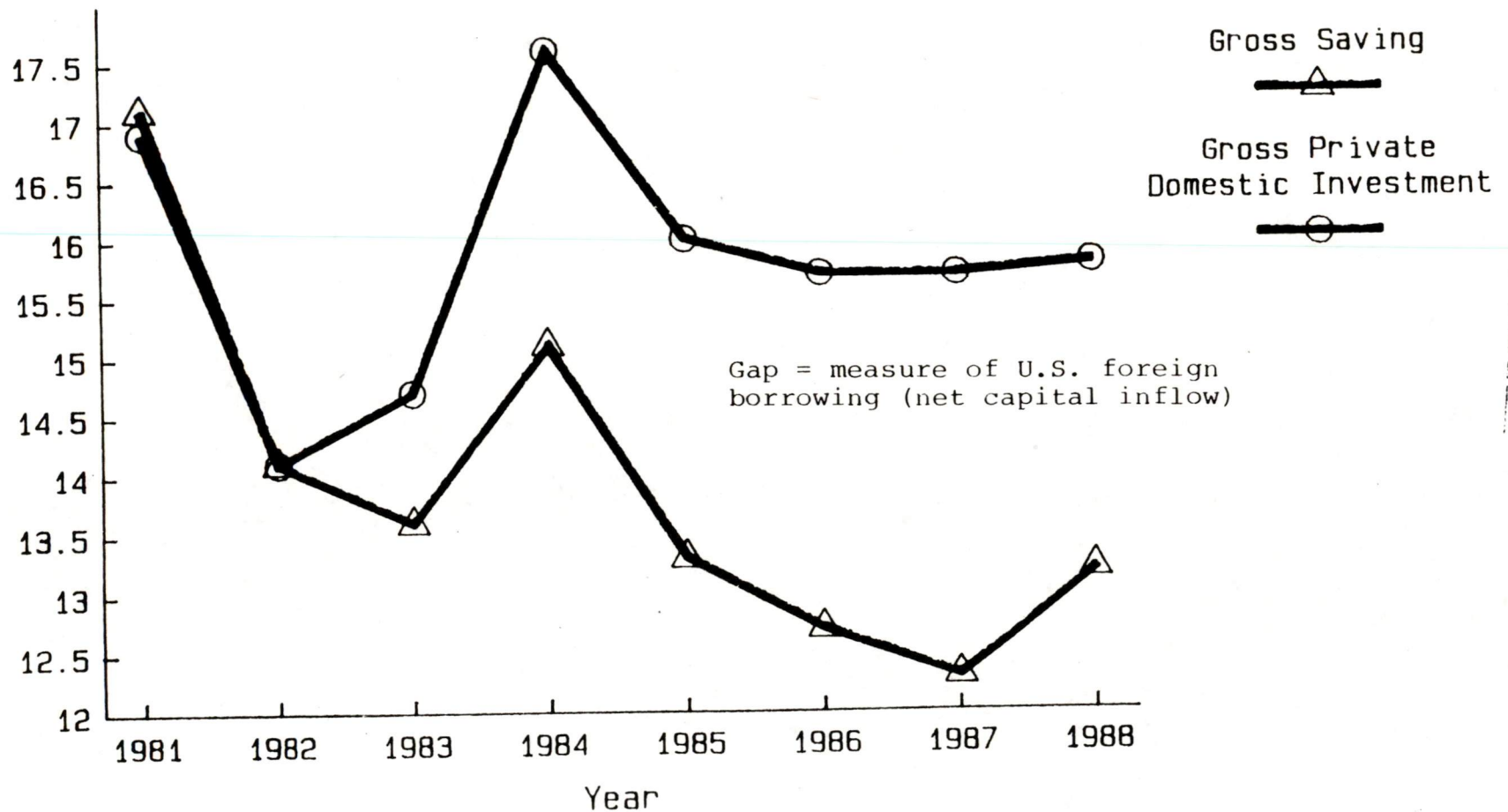
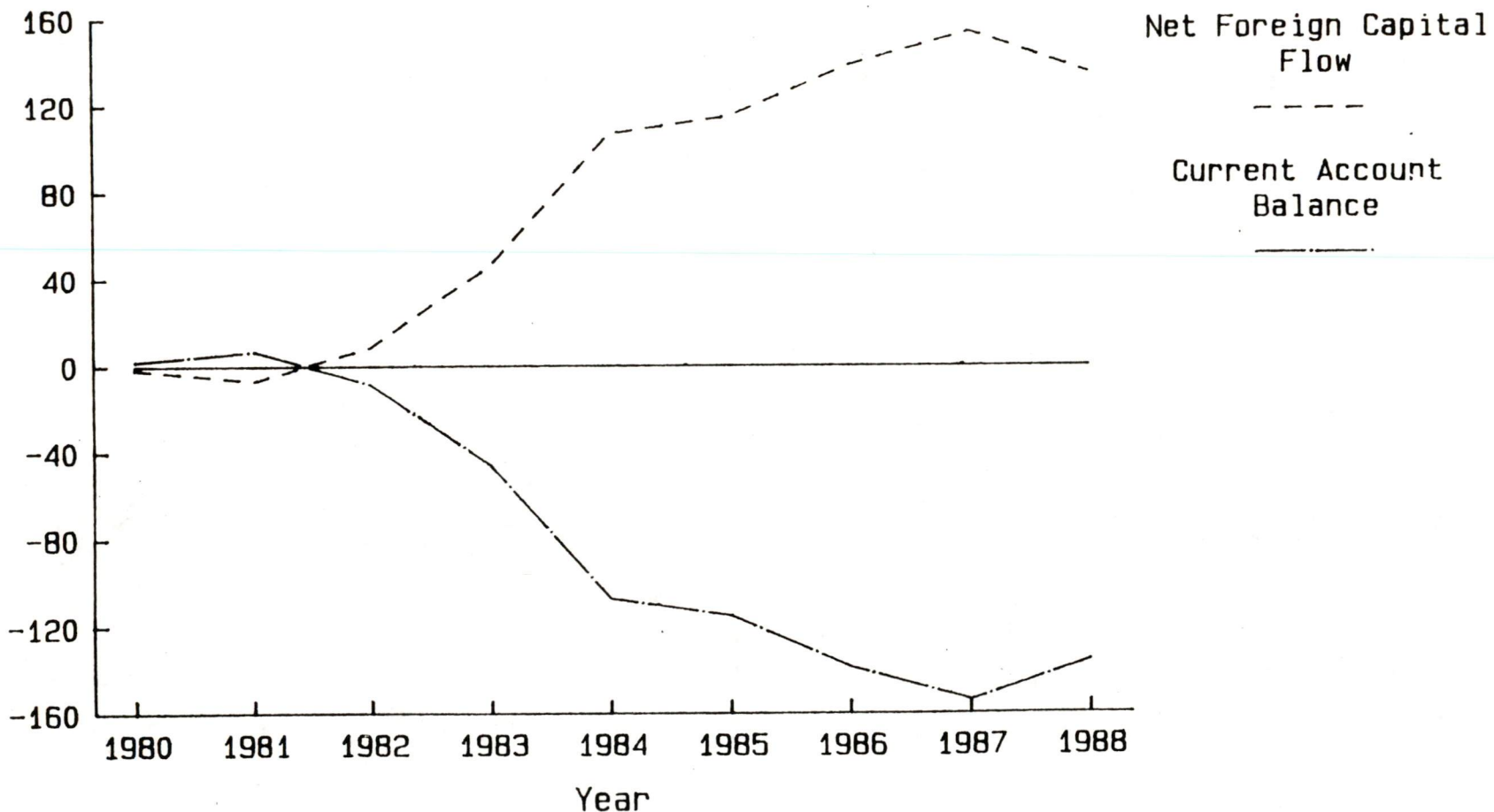


Chart 5

- Net capital inflow has its direct reflection in the symmetrical deficit on the current account (of which merchandise trade is the largest component).
- In effect, net foreign borrowing supplies the additional foreign purchasing power for America to import more than it exports.
- The improved performance of the U.S. economy in the 1980s also increased the attractiveness of the U.S. market to foreign investors.

\$Billions



Foreign capital flow is net (gross inflow minus gross outflow) and is adjusted to include statistical discrepancy factor

Chart 6

- Relative to the historic average of 1950-80, the saving-investment gap of the 1980s represents reduced gross saving, rather than higher gross investment (as a share of GNP).
- The current account deficit cannot be closed without closing the saving-investment gap.
- It is in the U.S. and global interest to close the gap gradually by increasing saving (and sustaining growth) rather than by lowering investment (thereby reducing growth potential and risking recession).

Percent of GNP

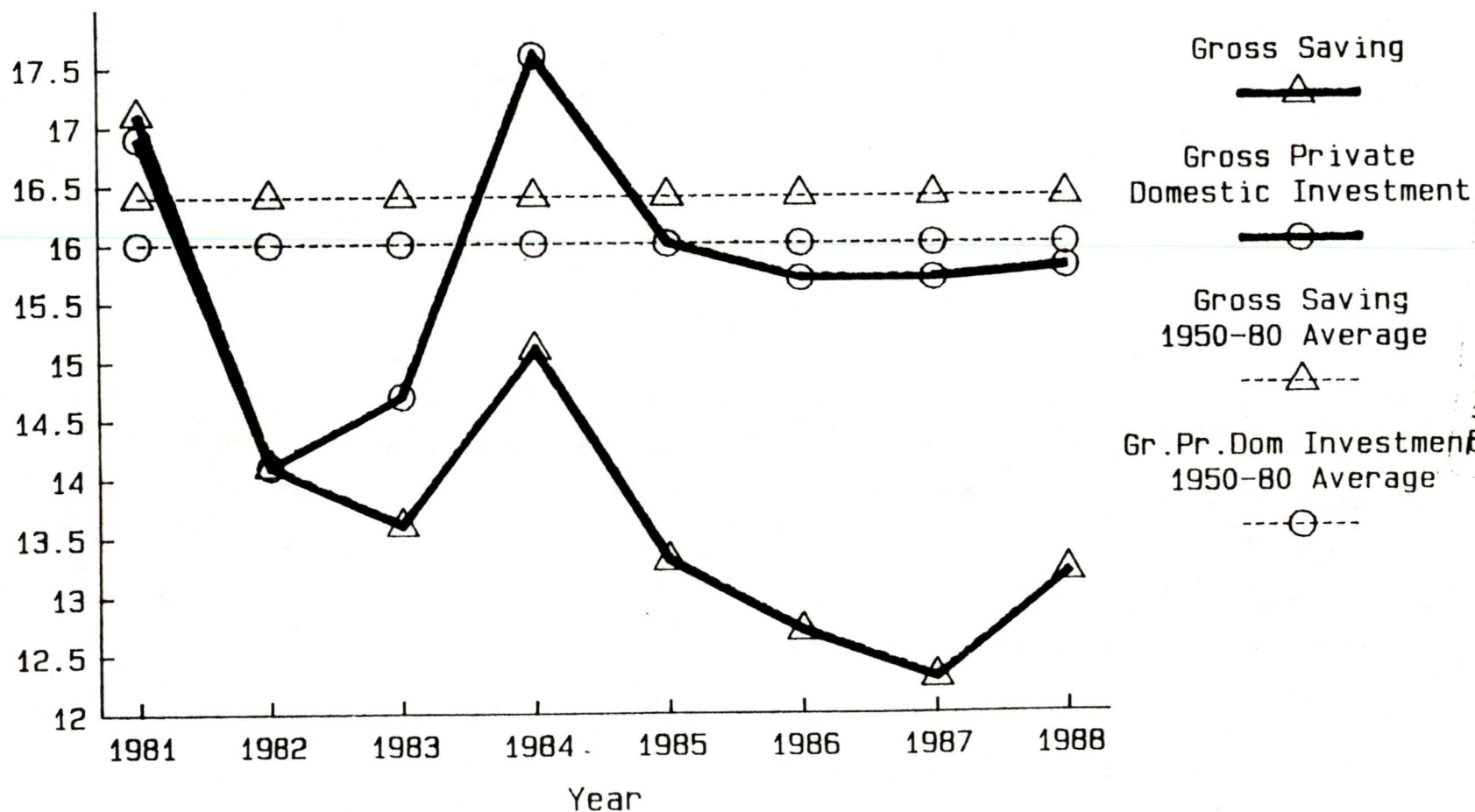


Chart 7

- Gross saving is the sum of private saving (personal and reinvested business earnings) and government budget balances.
- The U.S. gross saving decline reflects both the unprecedented size of the Federal budget deficit and the decline of private saving (particularly personal saving).
- Closing the trade deficit through higher U.S. saving will most likely require both Federal deficit reduction and higher private saving rates.

Percent of GNP

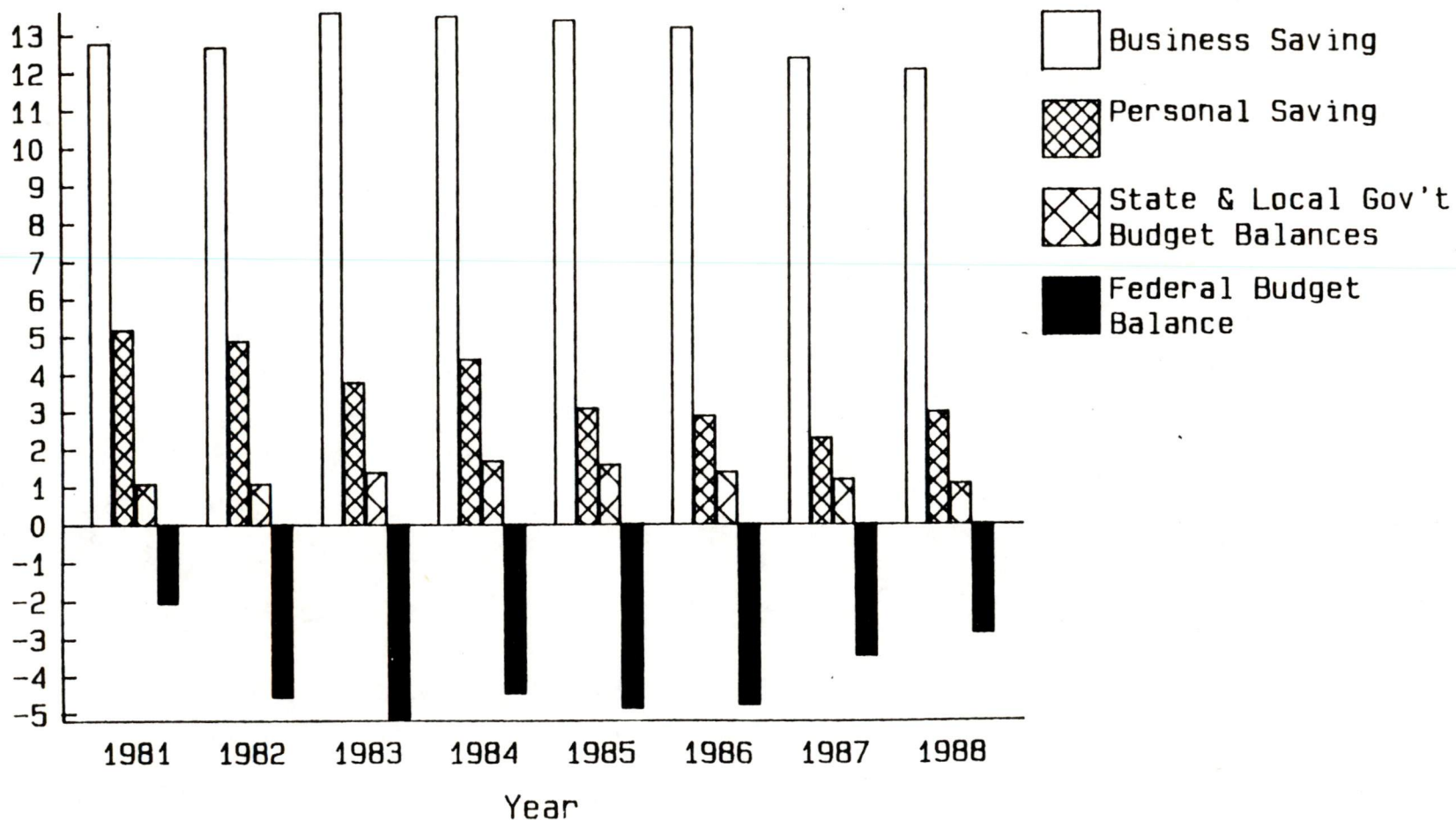


Chart 8

~~CONFIDENTIAL~~

10

ANNEX

<u>ISSUE</u>	<u>PAGE</u>
THE URUGUAY ROUND.....	11
ASIA AND THE PACIFIC.....	14
JAPAN.....	21
MEXICO.....	28
WESTERN EUROPE.....	32
LATIN AMERICA AND OTHER DEVELOPING COUNTRIES.....	37
UNILATERAL ACTION AND UNFAIR TRADE PRACTICES.....	39
EXPORT/IMPORT DATA.....	42
INVESTMENT DATA.....	43

~~CONFIDENTIAL~~

THE URUGUAY ROUNDI. INTRODUCTION

The multilateral trading system rests on the General Agreement on Tariffs and Trade (GATT). For over 40 years the GATT has fostered continuing trade expansion and has accommodated a growing membership of diverse economies. It has evolved beyond a mere venue for periodic tariff-cutting to become a forum for addressing a diverse array of non-tariff barriers and trade-distorting practices. Most importantly, the GATT has generated widespread acceptance of, if not always adherence to, certain basic principles -- non-discrimination, transparency, most-favored-nation -- that support open trade.

However, the GATT contains significant weaknesses. Its coverage is limited essentially to trade in goods; it has been undermined by the proliferation of preferential trade arrangements, so-called "grey area" measures and bilateral sectoral agreements; and its dispute settlement mechanism is often ineffective, especially where GATT rules are vague. It should be noted that certain of these weaknesses are attributable to the reluctance of nations, including the United States, to be bound completely by multilateral rules.

II. TRADE POLICY PROBLEMS AND OPPORTUNITIES

On balance, the GATT is not as good as it should be, but not nearly as bad as its detractors would allege. It is akin to a weather-beaten house on a priceless piece of property -- the benefits of renovation outweigh the costs. Chief among those costs is the likelihood that, in the absence of the GATT, the global trading system would go the way of unilateralism, bilateralism and trading blocs of obviously protectionist intent. Such "balkanization" would promote trade discrimination and impede economic efficiency and growth.

The United States has historically been a leader in the GATT and is the motive force behind the most ambitious renovation effort to date -- the Uruguay Round of Multilateral Trade Negotiations.

The Round was launched in September 1986 in Punta del Este, Uruguay and represents an opportunity to commit nearly 100 nations to principles of free and fair trade based on enforceable international rules.

These complex negotiations are attempting for the first time to bring issues that are key to U.S. prosperity -- agriculture, intellectual property rights, trade in services and trade-related investment measures -- under the discipline of the multilateral

~~CONFIDENTIAL~~

12

system. The negotiations are also intended, among other things, to improve dispute settlement and strengthen the GATT as an institution.

On April 8, delegates convening in Geneva ratified 15 negotiating texts that establish the framework for the final stage of the negotiations, which are scheduled to conclude by December 1990.

The challenge now is to capitalize on this recent breakthrough and ensure that U.S. goals are met in the remaining 18 months of substantive negotiations. A serious effort must be made to refocus attention on the entire range of opportunities and challenges the negotiations present.

Much of the recent high level and media focus on the negotiations has been on the new issues (services, intellectual property, investment) and areas not adequately covered by the GATT (agriculture). This emphasis has obscured some of the more traditional areas where continued liberalization is necessary worldwide. These include:

- o The expansion of market opportunities for U.S. exports through the elimination of tariff and non-tariff measures;
 - o Greater discipline in the use of safeguards to impose import relief, including the use of so called "grey area" measures, such as VRAs;
 - o The possible subscription of trade in textiles and apparel to GATT procedures;
 - o The elimination of the double standard that enables developing countries to enjoy the benefits of the multilateral trading system without undertaking corresponding obligations.
- The United States has proposals to limit the use of balance-of-payments exemptions, to seek further tariff reductions and bindings in terms of market access, and to assure that the new rules developed do not contain loopholes for "development."

A successful conclusion of the Uruguay Round will not be achieved unless these issues are addressed in the negotiations. In most cases the United States seeks to raise other countries to our own level of trade liberalization. In other cases, we may want to go further, seeking more radical liberalization, as we have done in the agricultural negotiations. In so doing, we will have to face our trading partners' demands for better access to the U.S. market (including to sensitive sectors such as steel and textiles), greater use of GATT-agreed disciplines as opposed to

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

13

unilateral measures and limitations on the use of U.S. trade laws and remedies.

The stage is set in the negotiations for tough bargaining that will eventually require hard choices between market-oriented principles and domestic political constraints.

III. U.S. TRADE POLICY OBJECTIVES

U.S. objectives with respect to the multilateral trading system should be as follows:

- o Make the successful conclusion of the Uruguay Round the linchpin of U.S. trade policy;
- o Continue to seek extension of GATT discipline to new areas of trade and new trading partners;
- o Raise the level of trade liberalization in other countries to U.S. standards;
- o Reaffirm traditional U.S. leadership in international economic cooperation; and
- o More fully integrate developing countries into the multilateral system, thereby encouraging them to rely on market-oriented policies to attract investment and promote trade.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

14

ASIA AND THE PACIFIC

I. CURRENT STATUS OF TRADE RELATIONSHIP

Asia and the Pacific¹ is perhaps the most dynamic economic area in the world. Many countries in this region are among the world's leaders in economic growth. As a group, these nations were the United States' third largest export market in 1988 and were the second largest supplier of U.S. imports. U.S. export growth to the region has been particularly strong, rising 40 percent in 1988 alone.

While it is common to aggregate these countries under the rubric "Pacific Rim," their economies exhibit enormous heterogeneity. Accordingly, they do not respond identically to international economic phenomena or to U.S. policy initiatives.

II. TRADE POLICY PROBLEMS AND OPPORTUNITIES

Although there are exceptions and differences of degree, the Pacific Rim countries generally adhere more closely to market-oriented principles than do countries in any region outside North America and Europe. This situation provides an enormous opportunity to implant in the region the U.S. vision of market-oriented trade and investment regimes.

The challenge is to integrate the Pacific Rim economies more fully into the world trading system through an acceleration of import and investment liberalization, the elimination of export subsidy practices and strengthened intellectual property protection (primarily intensified enforcement of recently revised laws). We seek these countries' support in our efforts to extend the GATT's coverage to investment and intellectual property, and to restrict the use of balance-of-payments exceptions to GATT disciplines. Progress on the integration of these economies would provide a powerful model for developing countries in other parts of the world.

While the United States supports the further democratization of the Pacific Rim societies, the liberalization of the political systems in several countries is making it politically more difficult for many governments to respond positively to U.S. market-opening pressures. In some instances (e.g., Korea,

¹. Asia and the Pacific is defined to include China, South Korea, Taiwan, Hong Kong, Australia, New Zealand and the Association of Southeast Asian Nations (ASEAN), which is comprised of Singapore, Malaysia, Thailand, Indonesia, the Philippines and Brunei. This paper includes a separate section on Japan.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

15

Taiwan, Thailand) U.S. pressure for trade liberalization is a contributing factor to growing anti-Americanism.

The continuing failure of Japan to emerge as a major importer of manufactured goods is a central obstacle to the establishment of a more market-oriented pattern of trade in the region. Japan remains the principal contributor to persistent trade imbalances in East Asia and the Pacific.

The ability of the United States to maintain its influence in the region is challenged by the strong yen and the large Japanese current account surplus, which together provide Japan with very significant investment and (commercially-related) economic assistance resources. Japan's rapidly growing economic aggregates and demonstrated international competitiveness also are causing some in the region to consider if the Japanese model of economic organization is superior to the more market-oriented U.S. paradigm.

III. U.S. TRADE POLICY OBJECTIVES

U.S. objectives for Asia and the Pacific follow logically from our global trade policy objectives. Simply put, they are:

- o To strengthen Asian and Pacific countries' commitments to market-oriented economies, democratic forms of government and trade and investment regimes based on the rule of law;
- o To obtain improved access for U.S. goods, services and investment in order to benefit from the region's expected continued economic development;
- o To make the region a force within GATT for the most ambitious possible trade liberalization; and
- o To ensure that the relative influence of the United States in the region is not diminished.

More specifically, the Administration's principal trade and investment objectives for the region should include:

- o The full "graduation" to developed status of the four NIEs (Hong Kong, Singapore, Taiwan and Korea) by 1992. This should be pursued through continued bilateral pressure and intensified multilateral pressure (especially through more vigorous use of GATT provisions). Graduation would require these economies to:

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

16

- Eliminate all trade barriers currently justified on balance-of-payments or infant industry grounds;
- Bring their nominal average tariff rates in line with the average level of OECD tariffs (approximately 5 percent) and to bind them at that low level;
- Provide full right of establishment and national treatment for direct foreign investment;
- Withdraw from the remaining GSP schemes in which they participate;
- Assume full developed country obligations under all of the GATT codes governing non-tariff barriers; and
- Assume all the developed country obligations negotiated in the Uruguay Round.

(To a very great extent, Hong Kong and Singapore already have met these requirements.)

- o The phased integration of the four largest economies in ASEAN -- Thailand, Malaysia, the Philippines and Indonesia -- into the multilateral trading system's obligations.
- o The establishment of a strengthened economic relationship with ASEAN.
- o The establishment of comprehensive intellectual property protection throughout the region.
- o The elimination of trade-distorting investment restrictions.

While the United States has other trade interests in the region (e.g., support for economic liberalization and improved market access in the region's non-market economies, particularly China), the foregoing objectives should command the bulk of the resources and attention that are directed at the region by the Bush Administration.

IV. OPTIONS

Several options are available for implementing the above U.S. trade policy toward Asia and the Pacific. These options are not mutually exclusive and would complement our continuing bilateral market-opening campaigns.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

17

OPTION 1: STRENGTHENED PACIFIC RIM COOPERATION. There are a number of options for strengthening Pacific Rim cooperation, ranging from purely consultative approaches (e.g., former Secretary Shultz's proposed Pacific Basin Forum) to policy coordination bodies (e.g., Senator Bradley's PAC-8 proposal, Former Japanese Prime Minister Nakasone's Pacific OECD idea and possibly Australian Prime Minister Hawke's recent Pacific initiative) to contractual trade liberalization pacts.

The following options do not attempt to capture all of the variations in regional arrangements but lay out the pros and cons of the two basic models, i.e., a purely consultative mechanism vs. an arrangement in which obligations are incurred.

- (A) Establishment of a loose consultative arrangement with no new trade obligations; the arrangement could encompass broader foreign policy and security concerns, as well as trade.

Pro:

- Easiest form of cooperation to establish and to accommodate diversity of membership.
- Does not call into question participants' commitment to GATT or Uruguay Round.

Con:

- Does not provide concrete trade and investment benefits.
- Diverts attention and resources from other approaches that could result in concrete liberalization measures.

- (B) Negotiation of a regional compact agreement with concrete trade liberalization commitments and/or establishment of a Pacific OECD.

Pro:

- Provides vehicle for like-minded countries to pursue liberalization beyond GATT (e.g., regional codes on intellectual property protection or investment) and/or to improve policy coordination in a variety of economic areas.
- Puts additional pressure from non-U.S. sources on Japan, Korea and Taiwan to open markets further.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

18

Con:

- Could be interpreted as abandonment of Uruguay Round or establishment of alternative trading bloc.
- Would divert negotiating resources away from Uruguay Round.
- Differing economic structures, levels of development and economic policies in the region would make agreement difficult.

OPTION 2: ASEAN - U.S. INITIATIVE (AUI). AUI is an already existing ASEAN-U.S. research project that is exploring ways to strengthen the bilateral relationship. The jointly funded research report was delivered to the U.S. and ASEAN governments on April 12. The report recommends that an umbrella agreement be negotiated among the United States and six ASEANs, under which a wide spectrum of trade and investment agreements could be negotiated with individual ASEAN members or with the group as a whole.

Pro:

- Would respond positively to ASEAN's desire for stronger economic relationship with the United States.
- Would help to check rising Japanese influence in southeast Asia.
- Would give United States a base from which to pursue broader Pacific Rim cooperation arrangements or a Free Trade Agreement (FTA) with ASEAN.

Con:

- Diversity of countries could limit initiative to broad umbrella agreement in near term.
- Still no clear consensus among ASEAN members of what an AUI agreement should entail.

OPTION 3: OECD MEMBERSHIP FOR PACIFIC RIM NIEs. Actively seek full membership in the OECD for as many Pacific Rim NIEs as possible. This could be pursued as the appropriate objective of the OECD-NIEs dialogue that was launched on an informal basis in January of this year.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

19

Pro:

- Would promote more responsible macroeconomic, trade and investment policies among the NIEs.
- Would reduce U.S. visibility as the source of pressure on NIEs to open their markets.

Con:

- Unless there is a significant price of entry for Korea and Taiwan (in terms of adopting more market-oriented policies), their entry could water down the OECD standard of reliance on market forces.
- Could make the OECD too large and unwieldy.
- Membership for Taiwan and Hong Kong could encounter resistance because of the PRC.

OPTION 4: ADDITIONAL FREE TRADE AREAS (FTAs). Negotiate comprehensive free trade areas with one or more Pacific Rim economies. Several variations on this option are possible in principle, including responding positively to previous FTA proposals by Taiwan or Singapore, attempting a merger of the U.S. - Canada FTA with the Australia-New Zealand Closer Economic Relationship (CER) or seeking a comprehensive Pacific Rim FTA. In addition, the researchers responsible for the ASEAN-U.S. Initiative suggested that the ultimate goal of the AUI umbrella agreement should be an ASEAN-U.S. Free Trade Agreement, but noted that an FTA would take years to negotiate.

Pro:

- Could create momentum for broader liberalization in East Asia.
- Could stimulate more ambitious liberalization agreements in GATT.
- Would send clear message to Japan that the United States will maintain its economic prominence in the region.

Con:

- Could be interpreted as an abandonment by the United States of the multilateral system in favor of a U.S.-centered trading bloc.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

20

- Would be resource-draining to negotiate and would divert substantial resources from the Uruguay Round.
- No indication that benefits to the United States of improved access to other countries are sufficient to overcome domestic opposition to elimination of tariffs and other restrictions on highly sensitive labor-intensive products.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

21

JAPAN

I. CURRENT STATUS OF THE TRADE RELATIONSHIP

Japan was the United States' second largest export market in 1988 after Canada, although regions such as the EC and the Pacific Rim represent larger total export markets. Japan was our single largest supplier of imports last year, accounting for over 20 percent of all U.S. imports. The bilateral trade deficit in 1988 was \$52.1 billion.

Among industrial countries, Japan consistently has shown strong economic growth and is likely to lead the major industrial countries in this area over the next two years.

II. THE BILATERAL TRADE DEFICIT

The bilateral trade deficit has become the most serious political irritant between the United States and Japan, sufficiently irritating that it threatens to, and occasionally does, spill over into other areas of the relationship. However, as with the aggregate U.S. trade deficit, the bilateral deficit with Japan is largely attributable to macroeconomic imbalances -- primarily our low rate of savings and Japan's relatively low rate of consumption. Reducing the deficit will require macroeconomic adjustments on both sides.

Since 1985, Japan has taken more action to correct its current account imbalance than have the United States or any of the other G-7 countries. From 1985 to 1988, Japanese domestic demand growth has exceeded GNP growth by 1.5 percent per year, causing the current account surplus to decline from 4.3 percent of GNP in 1985 to 2.8 percent in 1988. By contrast, U.S. domestic demand growth has been held below GNP growth by a mere 0.2 percent per year, causing the current account deficit to decline only marginally from 2.9 percent of GNP in 1985 to 2.8 percent in 1988.

Unfortunately, most forecasts show little further correction in the current account imbalances of either the United States or Japan after 1988 without further macroeconomic adjustments.

III. TRADE POLICY PROBLEMS AND OPPORTUNITIES

But even if macroeconomic adjustment were to continue and the bilateral deficit were eliminated, an activist trade policy toward Japan would still be needed to remove the remaining barriers and distortions in the Japanese market.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

22

The trade data characterize the Japanese domestic market, the second largest in the world, as remaining effectively closed to large classes of foreign manufactured goods.

Japan's relative import performance is better with consumer goods, where the EC and the Asian NIEs have a comparative advantage, than with capital goods, where the United States has a comparative advantage. For consumer goods (non-food), the 1988 ratio of imports to personal consumption expenditures in the U.S. (3.1 percent) was only twice that of Japan (1.5 percent). For capital goods the ratio of imports to fixed investment was more than six times greater in the U.S. (14.5 percent) than in Japan (2.3 percent).

This disparity in import performance between consumer and producer goods is reflected in the results to date of our sector-specific negotiations with the Japanese. We have had some success with consumer goods, such as cigarettes, where the U.S. share of the Japanese market has increased from 3 percent to 13 percent. However, we have had much less success with producer goods, such as semiconductors, where U.S. producers have approximately 10 percent of the Japanese market. In contrast, the U.S. share of the EC market was 44.8 percent, and of the rest of the world 32 percent.

Other U.S. manufacturers, including those of supercomputers, fiber optics, telecommunications equipment and computer software, have earned large (and in most cases, leading) shares of third-country markets in head-to-head competition with Japanese companies, but remain restricted in Japan. For example, despite the existence of a two-year-old procurement agreement, U.S. supercomputer manufacturers, who hold 80 percent of the world market, have yet to make a single competitive sale to the Japanese public sector (although sales to the Japanese private sector have occurred).

The challenge to U.S. trade policy is to find ways of lowering Japanese barriers to imports. Many of these barriers and distortions are not now primarily embodied in tangible quotas and tariffs. Rather, they are embodied in existing or past policies and practices of the government, such as "administrative guidance" and "targeting." These barriers also are contained in business practices such as the distribution system, closed business groups and anticompetitive "market discipline."

Many of these policies and practices are structural and may or may not have been devised specifically to bar imports. But insofar as they have the effect of restricting imports, they are legitimate targets of trade policy.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

23

IV. U.S. TRADE POLICY OBJECTIVES

U.S. trade policy toward Japan should strive to integrate Japan more fully into the world economy, particularly by having it become as much of an "importing superpower" as it is an "exporting superpower."

Our specific trade policy objectives should be to:

- o Eliminate structural rigidities and systemic practices and policies that have the effect of restricting imports;
- o Eliminate Japanese barriers to imports of manufactured goods, particularly producer and high-tech goods, in which U.S. products are competitive based upon their performance in third-country markets;
- o Seek active Japanese support for U.S. positions in the Uruguay Round; and
- o Intensify support for, and promotion of, U.S. exports to Japan.

V. OPTIONS

Since 1986, U.S. trade strategy toward Japan has been based on the elimination of formal, sector-specific trade barriers. With the removal of most of the more egregious of these barriers, our strategy should now shift toward the elimination of structural rigidities and systemic barriers.

It must be remembered, however, that absent macroeconomic adjustment, no trade strategy, no matter how aggressive and effective in removing trade barriers and distortions, can be expected to reduce significantly the bilateral trade deficit. Thus, several of the following trade policy options (which are not mutually exclusive), involve complementary macroeconomic components:

OPTION 1: SEEK TO ELIMINATE STRUCTURAL RIGIDITIES AND SYSTEMIC BARRIERS THROUGH COMPLEMENTARY MACROECONOMIC AND TRADE POLICY DISCUSSIONS. Initiate coordinated macroeconomic/trade policy consultations with Japan aimed at removing structural rigidities that have blunted the positive effect on Japanese imports that would otherwise have been expected from yen appreciation and elimination/reduction of most formal trade barriers. Such rigidities would include savings and investment patterns and practices, the distribution system, land use, etc. Export and import price monitoring would be used to identify barriers to the pass-through of exchange rate changes. The overall objective

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

24

would be to secure GOJ action within a specified timeframe to reform or revise relevant laws, regulations and administrative guidance identified as causing or contributing to the rigidity.

Pro:

- Broad-based approach that focuses on sources of problems (structural rigidities) not symptoms (low U.S. exports).
- Consistent with calls for a more comprehensive U.S. strategy toward Japan.
- Responsive to recent suggestions made by MITI Vice-Minister Muraoka about need for macro/micro approach.
- Aim is on results that are attainable since under direct government control.
- Should be attractive to Japanese because it seeks to rationalize the Japanese economy.

Con:

- Could wind up as a repeat of the "Structural Dialogue," with academic debate but no action.
- No guarantee that changes in these laws and regulations will yield greater imports.

OPTION 2: SEEK TO ELIMINATE SECTOR-SPECIFIC BARRIERS AND DISTORTIONS, PARTICULARLY "PRESSURE POINTS." This option would continue and expand the policy followed since 1986 of focusing on specific sectors, but would give priority to "pressure points"--sector-specific barriers and distortions the remedying of which could affect structural and systemic problems. A range of tools would be employed, including Super 301, regular 301 and renewed MOSS (Market-Oriented Sector-Selective) talks:

Pro:

- Follows known formats and practices.
- Recognizes that elimination of structural rigidities per se may be both difficult and time-consuming, and thus attempts to get at structural and systemic problems by affecting change within particularly significant sectors.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

25

Con:

- Confrontational, especially Super 301.
- MOSS approach tends to be resource-draining relative to the results achieved.
- Priority sectors with clearly identifiable barriers have already been addressed.
- Difficult to measure progress without setting quantitative targets.

OPTION 3: USE NON-TRADE TOOLS AS LEVERAGE TO REMOVE TRADE BARRIERS. This option envisions using various forms of "nontraditional" tools to encourage removal of trade barriers. These tools would include leverage from outside the trade area per se, such as in the political and technological fields.

Pro:

- Would indicate to Japan unprecedented degree of seriousness of U.S. desire to resolve trade problems.

Con:

- Could be difficult to adhere to in areas of strategic concern to the United States.
- Risks souring other areas of the bilateral relationship because of trade disputes.

OPTION 4: "PLURALIZE" U.S. TRADE POLICY BY SEEKING WIDER SUPPORT FOR MARKET-OPENING EFFORTS BOTH INTERNATIONALLY AND WITHIN JAPAN ITSELF.

- (A) Use forums such as the Quad meeting, the Economic Summit, and the ASEAN-U.S. Initiative to raise collective concerns about Japanese trade barriers and distortions.

Pro:

- Allows greater leverage to be applied against Japan.
- Emphasizes that Japanese trade barriers are not just a U.S. problem, but a problem for all participants in the global trading system.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

26

Con:

- Likely to be viewed by Japan as confrontational, "ganging up" on Japan unfairly.
- Different interests among U.S., Canada, the EC and the Pacific Rim may make it difficult to coordinate policies toward opening the Japanese market.

(B) Take concerns directly to Japanese businesses and consumers in the context of urging Japan to adopt an "import vision": Japan sets objectives for its economy by convening groups from industry, academia, government, mass media, and the public who compose "visions" for a particular industry. The Japanese Government and major Japanese business organizations should be encouraged to organize a consensus-building process aimed at making Japan an "import superpower."

Pro:

- Would harness Japan's natural decision-making processes to increase imports.
- Non-confrontational; vision comes at Japanese initiative, not U.S. pressure.
- Would make imports legitimate in the minds of the Japanese, countering the deep-seated view that foreign imports "break your neighbor's rice bowl."

Con:

- Emphasis on increased imports was articulated in Japan's Maekawa Report without notable success.
- May not work without threat of sanctions.
- May require market share negotiations unless U.S. is satisfied with each of the visions Japan develops.

OPTION 5: TARGET U.S. EXPORT PROMOTION ACTIVITIES ON SPECIFIC PROCUREMENT OPPORTUNITIES AND ON FOLLOW-UP TO PREVIOUS MARKET OPENING NEGOTIATIONS. This option entails a Commerce-led initiative to identify key export opportunities arising out of either Japanese procurement (e.g., heliports, silver towns, supercomputers) or as follow-up to previously negotiated market openings (e.g., telecommunications). Working with the relevant private sector groups, the United States would assess the value of the opportunities to U.S. exporters, inform and recruit U.S.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

27

bidders/exporters, and establish a mechanism to track exporter efforts and Japanese receptivity/compliance. Within 9 to 12 months, the United States would evaluate the initiative's successes and failures and the reasons (e.g., U.S. competitiveness, financing arrangements, Japanese non-compliance, etc.).

Pro:

- Focuses on areas with greatest potential to improve U.S. export performance; especially important in areas, such as telecommunications, where Trade Act requires market-results test.
- Refutes Japanese charge that American companies are not trying hard enough.
- Could build record of success, encouraging broader industry marketing efforts.
- Provides experienced-based data for diagnosing U.S. market penetration problems in specific sectors.

Con:

- Will require substantial resource commitment.
- Results highly dependent on industry response/commitment.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

28

MEXICO

I. CURRENT STATUS OF THE U.S. - MEXICO TRADE RELATIONSHIP

The United States has significant strategic and economic interests at stake in its relationship with Mexico. With a population of 84 million, Mexico is the eleventh most populous country in the world. Over 30 million Mexicans (more than 40 percent of the population) are under the age of 15. At current growth rates, the population will exceed 100 million before the turn of the century. These demographic realities will strain the social system, keep unemployment levels at or above the current 18 percent and increase immigration pressure on the United States.

Mexico was the United States' third largest single country export market in 1988, behind Canada and Japan. Despite Mexico's disappointing economic performance in recent years, U.S. exports to Mexico grew strongly in 1988. Mexico was the fifth largest single country supplier of U.S. imports in 1988, behind Japan, Canada, Germany and Taiwan. The bilateral trade deficit was \$2.6 billion in 1988.

II. TRADE POLICY PROBLEMS AND OPPORTUNITIES

The current year provides a unique window of opportunity for making progress in the U.S.-Mexican trade and investment relationship. Economic reforms and debt or debt service reduction under the Administration's debt proposals may provide significant opportunities for increased imports by Mexico.

The new Salinas Administration is proceeding with economic reforms and trade liberalization, with plans to change investment regulations, upgrade intellectual property rights protection, dismantle border restrictions, and deregulate the domestic economy. Salinas has the ability to make bold moves now which might become politically impossible at a later date. Initiatives that result in expanded trade and a healthy and growing Mexican economy will also serve to decrease immigration pressures on the United States.

But despite increasing liberalization, trade irritants remain. Investment is inhibited by an opaque regulatory environment and inadequate rules for protecting intellectual property rights. U.S. exporters also seek non-discriminatory treatment for U.S. providers of busing, trucking, insurance and tourism services. For their part, Mexican interests complain of restricted access to the U.S. market in automotive products, steel (Mexico limits steel exports under a Voluntary Restraint Agreement, revised in

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

29

1987), textiles (our bilateral textile quota agreement expires in 1991) and certain agricultural products.

In mid-April of this year, the Salinas Administration approached the U.S. Government with an urgent request for improvements in steel, textiles and GSP treatment in return for Mexican concessions in investment. As a result of recent discussions, Mexican officials are close to acceding to U.S. requests for improvements in their investment rules with the expectation that the United States will immediately make a symbolic gesture indicating a commitment to work with the Salinas Administration on the trade and investment relationship.

III. OBJECTIVES

U.S. trade policy objectives for Mexico are:

- o To reenforce and expand Salinas' market-oriented reform programs as an important component of structural reform in a manner that contributes to trade liberalization and political stability;
- o To support continued trade liberalization consistent with the Administration's debt proposals;
- o To seek additional trade liberalization through:
 - Elimination of remaining import licenses (on automobiles, electronics, pharmaceuticals and agriculture);
 - Unrestrictive investment laws;
 - Bound tariffs at low rates; and
 - Comprehensive intellectual property protection.

In return, we should expect the Government of Mexico to seek "reciprocity" from the United States in terms of:

- o Lower U.S. tariffs;
- o Liberalized access to U.S. markets for industrial and specialty agricultural goods (e.g. steel, textiles, autos, chemicals, fruits, vegetables); and
- o Full Generalized System of Preferences (GSP) benefits.

IV. OPTIONS

The existing basis for bilateral trade and investment talks is the 1987 Framework Understanding. The Framework Understanding

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

30

takes a gradualist approach to U.S.-Mexican relations. Currently, work groups have been established in specific issue areas and an oversight forum provides an opportunity to review trade irritants and search for mutually satisfactory solutions.

The following two options go substantially beyond the status quo, building on the existing relationship:

OPTION 1: "FRAMEWORK II". "Framework II" envisions a new initiative, to be launched at the Presidential level through the signing of a "Framework II" agreement, which would entail the bilateral negotiation of an accelerated Uruguay Round package in the short-term (by the time the Presidents meet this Fall), and market access and trade facilitation talks in the longer-term (1990-2000). In return for Mexican tariff, non-tariff and intellectual property rights concessions and further liberalization of their investment regime, the United States could facilitate access to agricultural markets, increase Mexico's steel and textile quotas, and augment GSP benefits. Areas not covered by the GATT could be implemented immediately, and those contingent on the Uruguay Round could be folded into the Round when it is completed.

Pro:

- Takes advantage of Salinas Government's ability to make trade concessions now.
- Helps push Uruguay Round process forward and has potential to make Mexico a model for other developing economies in the multilateral system.
- Signals to Mexico that the United States rewards trade and investment liberalization.
- Longer-term market access talks could pave way for eventual economic integration with the United States.

Con:

- U.S. concessions in steel, textiles and sensitive agriculture products may be politically difficult and could undermine domestic support for our Uruguay Round agriculture proposal.
- Ideally, tariff negotiations should be conducted only within the Uruguay Round; preferential treatment to Mexico could weaken preferential benefits provided under Caribbean Basin Initiative.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

31

OPTION 2: U.S.-MEXICO FREE TRADE AGREEMENT. Similar to the recently implemented FTA with Canada, the United States and Mexico would work to create a free trade area with zero tariffs and a minimum of other distortions.

Pro:

- An FTA is consistent with the GATT if it covers "substantially all trade" (which has been interpreted as more than 75 percent).
- Coupled with the U.S.-Canada FTA, could foster development of a "North American Common Market" and serve as a counterweight to Europe's 1992 exercise.

Con:

- Integration is probably not possible now because of differences in economies and political opposition (largely, though not exclusively, in Mexico).
- Negotiation of a comprehensive FTA would be a costly and time-consuming effort (the U.S.-Canada FTA took five years to negotiate) and would divert substantial resources from the Uruguay Round.
- Could be interpreted as an abandonment by the United States of the multilateral system in favor of a U.S.-centered trading bloc.
- No indication that benefits to United States of improved access are sufficient to overcome U.S. opposition to elimination of tariffs and other restrictions on highly sensitive labor-intensive products.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

32

WESTERN EUROPE

I. CURRENT STATUS OF THE U.S.- EC TRADE RELATIONSHIP

In 1988, almost 24 percent of U.S. exports went to the EC, making the 12 Member States as a group the United States' largest export market, although Canada, Japan and Mexico each outrank any individual EC Member State. The Community was the second largest supplier of imports to the United States after Japan. The 1988 bilateral trade deficit of \$9.1 billion was 56 percent lower than in 1987 due to the growth in U.S. exports to the region.

European growth in 1988 was fairly strong, particularly for the "Big Four" (Germany, France, Britain and Italy) who averaged 3.7 percent, although some slowdown is expected over the next two years. The EC accounts for 40 percent of U.S. direct investment overseas and 60 percent of the foreign direct investment in the United States.

II. TRADE POLICY PROBLEMS AND OPPORTUNITIES

U.S. trade relations with Europe are dominated by two sets of issues -- those related to the creation of a "Single Market" by 1992, and a host of other more traditional, but contentious trade issues, most of which involve subsidies and market access.

1992 Program: If achieved, a unified market of 320 million people with a gross domestic product in 1988 of \$4.2 trillion will represent the largest potential market for U.S. exports. This market is likely to be further enhanced as the countries comprising the European Free Trade Area (EFTA) strengthen ties with the EC to become part of a wider "European Economic Space."

When complete, the Single Market's elimination of internal barriers should reduce costs for American businesses in Europe, stimulate increased efficiency, encourage growth and create wealth and jobs.

The 1992 program also offers significant potential for providing greater impetus to the Uruguay Round, which, in turn, should constrain protectionist tendencies in the EC. The Organization for Economic Cooperation and Development (OECD) can also play a role in positively influencing the Single Market exercise, particularly since half of the OECD's members are also EC Member States.

While the 1992 program should be a net positive for American business, there is a danger that EC-wide barriers may be substituted for existing national ones. Specific U.S. concerns about 1992 include:

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

33

- o Possible protectionist measures the EC may take to transform high technology industries into global competitors (e.g., government intervention, subsidies, manipulation of trade regulations such as origin rules);
- o The use of scientific, health and safety standards that have the effect of barring or limiting American products, as was the case with the widely-publicized EC ban on meat hormones; and
- o Discrimination against U.S. trade and investment as, for example, in the EC proposal² for sectoral reciprocity in services sectors such as banking.

The challenge to U.S. trade policy is to counter such protectionist tendencies by firmly insisting that the Single Market be completed on the basis of non-discrimination in a manner consistent with competitive free market principles.

Subsidies, Market Access and Other Trade Problems: Aside from 1992, there remain problems in other more traditional areas of the bilateral trade relationship. These problems account for the vast majority of our trade frictions with Europe. A preoccupation with the 1992 exercise cannot be allowed to divert our attention from resolving these irritants, which generally involve disputes over subsidies and market access.

In the agricultural sector, bilateral disputes, such as that over oilseeds, are most often the result of the EC's use of unfair subsidies under the Common Agricultural Policy. Government intervention and subsidies in the industrial sector also provoke trade disputes, as in the Airbus case.

In addition, the United States has market access problems in the EC for heavy electrical equipment and telecommunications equipment and services. EC import quotas (as, for example, on apples) also are the subject of periodic trade disputes.

Too often the Europeans are unwilling to show flexibility or resort to dispute settlement mechanisms to find a resolution to trade problems. In the past four years the only trade disputes in which the United States and the EC have negotiated solutions (canned fruit, citrus, pasta, enlargement) are those where the United States has set deadlines with a credible threat of

². The EC has recently revised the reciprocity language in the banking directive to meet some but not all U.S. concerns, though the revised directive has yet to be implemented.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

34

retaliation. Otherwise, the issues generally go unresolved and eventually become magnified into larger trade disputes.

The EC's intractability and its relative willingness (unlike Japan) to retaliate/counterretaliate argues for an aggressive approach at the Commission and Member State levels using all the tools in our trade policy arsenal. A balanced mix of multilateral pressure via the Uruguay Round, bilateral negotiation and unilateral action (including section 301, as necessary), will be needed to achieve our trade policy objectives.

IV. U.S. TRADE POLICY OBJECTIVES

The broad objectives of the United States in its trading relationship with the European Community are as follows:

- o A fully integrated and open European economy that provides further potential for economic growth and expanded U.S. export opportunities;
- o A 1992 integration process that harmonizes the twelve Member State trade regimes at the highest (not lowest) level of freedom and market access;
- o A liberal, non-discriminatory EC-wide trade and investment regime based on principles of national treatment and right-of-establishment, rather than sectoral reciprocity;
- o Elimination/reduction of unfair competition resulting from the use of trade-distorting subsidies in both industry and agriculture; and
- o Ensuring that the U.S. and the EC have a strong mutual interest in a successful conclusion of the Uruguay Round, and are doing everything possible to achieve that result.

V. OPTIONS

Achieving our objectives should not require a radical departure from existing U.S. trade policy toward the EC. Use of multilateral, bilateral and unilateral tools should, however, be intensified. The following options attempt to do this and are applicable to both traditional and 1992 concerns alike.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

35

OPTION 1: NEGOTIATE AD HOC U.S.-EC GOVERNMENT-TO-GOVERNMENT AGREEMENTS ON INDIVIDUAL ISSUES (I.E., RULES OF ORIGIN, STANDARDS, ETC.).

Pro:

- May be effective approach to solving specific problems.

Con:

- Contributes to "bilateralism" in trade relations.

OPTION 2: PROMOTE DISCUSSIONS DIRECTLY BETWEEN THE U.S. AND EC PRIVATE SECTORS DESIGNED TO FACILITATE TRADE IN SELECTED AREAS AFFECTED BY 1992 (I.E., HARMONIZATION OF STANDARDS BETWEEN PRIVATE U.S. AND EC STANDARDS-SETTING BODIES).

Pro:

- Could be an effective approach to solving specific problems between industries.

Con:

- Is of limited utility for majority of 1992 issues.

OPTION 3: INTENSIFY U.S.-EC DIALOGUE.

(A) Increase Presidential Involvement through a Major Public Address and Regular U.S.-EC Presidential Summit Meetings.

Pro:

- Raises visibility of USG efforts on 1992.
- Presidential address would bolster public and EC confidence in underlying tenets of our historical policy in support of European integration.

Con:

- Summits could become too scripted and formal to really tackle the tough issues;
- Presidential involvement puts issues too much in the political spotlight, which can harden positions and impede dispute resolution.
- May be opposed by individual Member States.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

36

(B) Establish A Formal Consultative Mechanism With The EC To Be Carried Out At The Cabinet Or Sub-Cabinet Level.

Pro:

- Could have a better chance of acceptance if created as a channel for discussing trade interests, 1992 and otherwise.
- Would highlight the importance of trade issues rather than having them discussed merely as an adjunct to NATO Ministerials.

Con:

- EC has refused in the past to set up an institutional means for discussing 1992 issues.
- Consultative bodies and ministerial meetings tend to become too formal and scripted, and not sufficiently flexible to deal with trade disputes.

(C) Intensify Existing Ad Hoc Means Of Dialogue Through More Frequent And Coordinated Cabinet-Level Visits To Both Brussels And Member State Capitals. An early opportunity should be found for a special Cabinet Mission, which would be dispatched to Brussels and key capitals.

Pro:

- Further increases level and intensity of dialogue with EC.
- Demonstrates cabinet-level coordination and unity on 1992 issues.

Con:

- Such a visible effort could be a political problem if it does not achieve results.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

37

LATIN AMERICA, THE CARIBBEAN BASIN, AFRICA, AND
THE LEAST DEVELOPED DEVELOPING COUNTRIES (LDDCS)³

I. TRADE POLICY PROBLEMS & OPPORTUNITIES

This diverse group of countries accounts for a relatively small share of U.S. trade. In 1988, they purchased 9.7 percent of total U.S. exports, and supplied 8.9 percent of U.S. imports.

South America: Although a growing market in the 1960s and much of the 1970s, South America dropped as a share of total U.S. exports from 7.2 percent in 1979 to 4.7 percent in 1988. As with developing countries in general, current U.S. trade policy toward South America has sought to open markets for U.S. exports and investment, and to improve protection of U.S. intellectual property rights. While there have been some liberalizing trends, nearly all the South American governments (most notably Brazil) maintain restrictive import and foreign investment regimes, often in line with "import substitution" models.

The United States has initiated numerous section 301 investigations and taken retaliatory action against Brazil for its lack of patent protection for pharmaceuticals. The Generalized System of Preferences (GSP) has been used as leverage in the region in attempts to achieve similar goals, but with little success. These efforts have increased resentment and stiffened resistance toward U.S. objectives, particularly in the case of Brazil. This resentment, in turn, has also served to somewhat complicate U.S. efforts in the Uruguay Round.

However, the region's debt problems also present the United States with a substantial opportunity. The Administration's new debt strategy should continue to promote market-oriented reforms, including trade liberalization, through World Bank trade policy loans. This would create an opportunity to integrate U.S. trade policy objectives into these countries' policies.

The Caribbean Basin: The U.S. had a \$2.2 billion surplus in 1988 with the Caribbean Basin. U.S. policy seeks to bolster economic security by granting the region more favorable access to the U.S. market through the Caribbean Basin Initiative (CBI). The program stresses export diversification. Growth among countries in this region is uneven, and some of the small island economies have realized little from the CBI. Yet CBI enhancement, as proposed in the recently introduced Caribbean Basin Economic Recovery Act of 1989, offers an opportunity for the Administration to exercise

³. Excludes Mexico.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

38

leadership on economic policies toward Central America and the Caribbean.

The LDDCs: Largely located in sub-Saharan Africa, with a few in South Asia and among the Pacific Island states, the LDDC's constitute less than one percent of U.S. trade with the world. Building on the commitment in the Punta del Este declaration to give special attention to the situation and problems of the LDDCs, the U.S. floated informally in 1988 the idea of all OECD countries and the NIEs granting duty free treatment and other special concessions to LDDCs at the end of the Uruguay Round.

II. TRADE POLICY OBJECTIVES

U.S. trade policy objectives toward this diverse group of countries include the following:

- o Improved access for U.S. goods, services, and investment, and improved protection of U.S. intellectual property rights;
- o Less reliance on import-substituting economic development policies that inhibit creation of liberal trade and investment regimes;
- o Regional support for U.S. objectives in the Uruguay Round;
- o A more prosperous and stable Caribbean Basin with close economic and trade ties to the United States, particularly through development of closer and expanded U.S. private sector relations with the region; and
- o Encouragement of Europe and Japan to accept a greater share of LDC imports.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

39

UNILATERAL ACTION AND UNFAIR TRADE PRACTICES

I. DESCRIPTION OF U.S. LAWS

Several trade policy tools exist to respond to foreign unfair trade practices. On the import side, these tools include section 201, which acts as a shield, providing a temporary safeguard for U.S. industries seriously injured by imports (whether fairly traded or not), and antidumping and countervailing duty laws, which act as a level, neutralizing the effects of unfair trade practices, such as subsidization.

On the export side, the trade policy tools include section 301, "Super 301," "Special 301" and the telecommunications provisions of the 1988 Trade Act, all of which act as crowbars, providing unilateral leverage to pry open protected foreign markets.

Each of these sets of tools presents challenges and opportunities for U.S. trade policy.

II. TRADE POLICY PROBLEMS AND OPPORTUNITIES

(A) Import Protection

Import Relief: Sections 201 and 406 permit us to safeguard temporarily domestic industries seriously injured by a surge in imports. Relief in such cases is not dependent on a finding of a foreign "unfair" trade practice, but is provided pursuant to GATT rules that permit temporary import barriers to facilitate market-oriented adjustment. Under the law, trading partners affected by those barriers may be compensated for their losses, or may retaliate. Thus there is an opportunity for a foreign country to rebalance the situation while our industry tries to adjust.

The desire to avoid the costs of compensation or retaliation has led to the proliferation, particularly in the United States and the European Community, of extra-GATT solutions, such as voluntary restraint agreements (VRAs) and orderly marketing agreements (OMAs). Such measures tend to guarantee market share for the exporting country over time, regardless of its ability to compete efficiently. They also can undermine, rather than strengthen, the competitiveness of the safeguarded domestic industry, which becomes accustomed to protection from imports. Finally, these measures contravene the principle of non-discrimination so vital to the GATT, since they are often implemented on a selective basis rather than applied across-the-board pursuant to the most-favored-nation (MFN) principle.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

40

Antidumping and Countervailing Duty Laws: "Unfair" foreign trade practices have traditionally been defined as including dumping and subsidization. In these cases, the U.S. response is to neutralize the effects of the foreign unfair advantage by imposing antidumping or countervailing duties on U.S. imports from the offending country. These duties are imposed pursuant to the applicable GATT codes, which provide for uniform procedures and prior consultation with affected countries.

(B) Export Access

Of all the "crowbars," Section 301 provides the greatest unilateral leverage to enforce U.S. rights under the GATT and other trade agreements and to respond to "unfair" or "unreasonable" practices that deny U.S. exporters access to foreign markets. Under section 301, we may retaliate against such practices by imposing increased duties or other restrictions on imports, on a discriminatory or non-discriminatory basis, notwithstanding our GATT obligations.

Section 301 cases generally result in a negotiated bilateral agreement, not retaliation. However, significant problems arise where we face unfair or unreasonable practices in areas, such as services and intellectual property, not yet covered by the GATT. If we choose to retaliate in these instances, we are often forced to impose tariffs or quotas on imports of goods from the offending country, thereby violating our own GATT undertakings. Until we have negotiated adequate international disciplines in areas of vital importance to the United States -- intellectual property protection, services, and investment -- that tension will remain.

The "Super 301" provision in the 1988 Trade Act requires the Administration to self-initiate selectively a number of new 301 cases this year and next to pry open those foreign markets where U.S. businesses have the greatest export potential. This is generally regarded as a highly confrontational approach, which many of our trading partners fear may signal an abandonment of our commitment to the multilateral trading system.

III. TRADE POLICY OBJECTIVES

U.S. trade remedies laws should be administered so as to promote the overall objective of trade policy -- sustained, non-inflationary growth. This means that the application of these remedies should:

- o Open markets, not close them;
- o Support, not impede, the free exercise of market forces;

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

41

- o Reenforce, not undermine, the multilateral trading system embodied in the GATT; and
- o Protect America's vital economic interests.

Too often action taken to advance our economic interests has conflicted with the first three objectives. Much of this conflict could be eliminated if we are successful in the Uruguay Round, where we are seeking, on the import side:

- o To phase out "grey area" measures or bring them under multilateral control; and
- o To eliminate agricultural subsidies, domestic subsidies, targeting, natural resource pricing, etc., which compel the use of antidumping and countervailing duty laws.

On the export side, we are seeking to:

- o Reduce the tension inherent in our exercise of section 301 retaliatory measures by developing sound rules and dispute settlement mechanisms within the GATT to cover the "new" areas of services, investment and intellectual property.

In the interim, we should seek within the government to build our arsenal of GATT-consistent retaliatory weapons, such as imposing restrictions or fees on services (e.g., fishing rights, FCC certification, port fees, etc.). Where, however, we resort to Section 301, we should do so not as an exception to, but as an element of, our overall strategy of multilateral trade liberalization. Specifically, Section 301 should be used where it can force our trading partners to recognize that honoring agreements and abiding by, or expanding, multilateral discipline is a preferable alternative to unilateral U.S. action.

~~CONFIDENTIAL~~

U.S. EXPORTS, IMPORTS AND TRADE BALANCE WITH
SELECTED TRADE PARTNERS, 1987 TO 1988

~~CONFIDENTIAL~~

	<u>\$ Billions</u>		<u>\$ Billions</u>	<u>Percent Change</u>
	<u>1987</u>	<u>1988</u>	<u>Change, 1987-88</u>	<u>1987-88</u>
<u>Total World</u>				
Exports	\$252.9	\$320.4	\$67.5	26.7%
Imports	<u>405.9</u>	<u>441.3</u>	<u>35.4</u>	8.7
Trade Balance	-153.0	-120.9***	-32.1	-21.0
<u>Asia and the Pacific*</u>				
Exports	39.3	55.0	15.7	40.0
Imports	<u>78.8</u>	<u>89.3</u>	<u>10.5</u>	13.2
Trade Balance	-39.5	-34.3	- 5.2	-13.2
<u>Japan</u>				
Exports	28.2	37.7	9.5	33.6
Imports	<u>84.6</u>	<u>89.8</u>	<u>5.2</u>	6.2
Trade Balance	-56.4	-52.1	- 4.3	- 7.6
<u>Mexico</u>				
Exports	14.6	20.6	6.0	41.6
Imports	<u>20.3</u>	<u>23.3</u>	<u>3.0</u>	14.8
Trade Balance	- 5.7	- 2.6	- 3.1	-53.7
<u>European Community</u>				
Exports	60.6	75.9	15.4	25.3
Imports	<u>81.2</u>	<u>85.0</u>	<u>3.8</u>	4.7
Trade Balance	-20.6	- 9.1	-11.5	-56.0
<u>South America, Caribbean, Africa and The LDDCs**</u>				
Exports	29.1	31.1	2.0	7.1
Imports	<u>38.9</u>	<u>39.4</u>	<u>0.5</u>	1.2
Trade Balance	- 9.8	- 8.3	- 1.5	-15.3
<u>Canada</u>				
Exports	59.9	69.2	9.3	15.5
Imports	<u>71.1</u>	<u>80.9</u>	<u>9.8</u>	13.8
Trade Balance	-11.2	-11.7	0.5	4.5
<u>Rest of World</u>				
Exports	21.2	30.9	9.7	45.8
Imports	<u>31.0</u>	<u>33.6</u>	<u>2.6</u>	8.4
Trade Balance	- 9.8	- 2.7	-7.1	-72.4

* - Excludes Japan ** - Excludes Mexico

Totals may not add due to rounding. Percentage change is measured from full trade figures and may differ from change on rounded figures.

*** - In order to provide country detail, figures in this table are based on exports, f.a.s./imports, Customs value, both on a Census basis. These figures differ slightly from those in the text of the paper, which are on a balance-of-payments basis. The difference is accounted for by adjustments to reflect shipments of gold, freight charges in trade with Canada, military sales, and (in the case of imports) U.S. electricity imports.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

U.S. FOREIGN DIRECT INVESTMENT, OUTWARD, INWARD AND NET POSITIONS
WITH SELECTED TRADE PARTNERS, AND PERCENTAGE CHANGE, 1983 TO 1987

	<u>\$ Millions</u>		<u>Percent Change</u>	<u>Average Annual GDP/GNP Growth Rate (Percent)</u>
	<u>1983</u>	<u>1987</u>	<u>1983-87</u>	
<u>Total World</u>				
U.S. Outward	\$226,962	\$308,793	36.1%	2.3% (1980-87)
U.S. Inward	<u>137,061</u>	<u>261,927</u>	91.1	
U.S. Net	89,901	46,866	- 47.9	
<u>Asia and the Pacific*</u>				
U.S. Outward	22,135	29,460	33.1	6.3% (est.) (1980-86)
U.S. Inward	NA	NA	NA	
<u>Japan</u>				
U.S. Outward	8,063	14,270	77.0	3.9% (1980-87)
U.S. Inward	<u>11,336</u>	<u>33,361</u>	194.3	
U.S. Net	- 3,273	-19,091	483.3	
<u>Mexico</u>				
U.S. Outward	5,006	4,997	- 0.2	0.5% (1980-87)
U.S. Inward	<u>244</u>	<u>880</u>	260.7	
U.S. Net	4,762	4,117	- 13.5	
<u>European Community</u>				
U.S. Outward	81,564	122,247	49.9	1.8% (1980-87)
U.S. Inward	<u>82,494</u>	<u>157,710</u>	91.2	
U.S. Net	- 930	- 35,463	3,713.2	
<u>Latin America**</u>				
U.S. Outward	24,668	37,340	51.4	1.9% (est.) *** (1980-86)
U.S. Inward	<u>14,791</u>	<u>14,407</u>	- 2.6	
U.S. Net	9,877	22,933	132.2	
<u>Canada</u>				
U.S. Outward	47,553	56,879	19.6	2.9% (1980-86)
U.S. Inward	<u>11,434</u>	<u>21,732</u>	90.1	
Net	36,119	35,147	- 2.7	
<u>Rest of World</u>				
U.S. Outward	37,973	43,600	14.8	U.S.GNP: 2.7% (1980-87)
U.S. Inward****	16,782	33,837	101.6	

* Excludes Japan

** Excludes Mexico

*** Growth Rate for Latin America, Caribbean, Africa and LLDCs

**** Includes Asia and the Pacific not reported above

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

WHITE HOUSE STAFFING MEMORANDUM

DATE: _____ ACTION/CONCURRENCE/COMMENT DUE BY: _____

SUBJECT: _____ ECONOMIC POLICY COUNCIL MEMORANDUM

	ACTION FYI			ACTION FYI	
VICE PRESIDENT	☐	☒	MCCLURE	☐	☒
SUNUNU	☐	☒	NEWMAN	☐	☐
SCOWCROFT	☐	☒	PORTER	☐	☒
DARMAN	☐	☒	STUDDERT	☐	☐
BATES	☐	☒	INTERMEYER	☐	☐
BREEDEN	☐	☒	BOSKIN	☐	☒
CARD	☒	☒	PINKERTON	☐	☒
CICCONI	☐	☒		☐	☐
DEMAREST	☐	☐		☐	☐
FITZWATER	☐	☐		☐	☐
GRAY	☐	☒		☐	☐
HAGIN	☐	☐		☐	☐

REMARKS:

The attached is for your information.

UNCLASSIFIED UPON
REMOVAL OF CLASSIFIED
ATTACHMENTS

File 05/16/25

RESPONSE:

~~CONFIDENTIAL~~

James W. Cicconi
Assistant to the President
and Deputy to the Chief of Staff
Ext. 2702

THE WHITE HOUSE

WASHINGTON

May 1, 1989

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: LEHMANN LI 

SUBJECT: "Super 301"

Ambassador Hills has prepared the attached memo outlining the schedule for considering priority practices and countries under "Super 301." The memo is for your information.

UNCLASSIFIED UPON
REMOVAL OF CLASSIFIED
ATTACHMENTS

For 05/16/25

UNCLASSIFIED WITH
CONFIDENTIAL ATTACHMENT

~~CONFIDENTIAL~~

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20508

April 28, 1989

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: Carla A. Hills *CH*
RE: Designation of Priority Practices and Countries Under
"Super 301"

As you know, the 1988 Trade Act requires the USTR to identify by May 30 as "priority practices" those barriers the elimination of which is most likely to increase U.S. exports, and to identify as "priority countries" those nations with numerous and pervasive priority practices.

By June 20, the USTR must initiate 301 investigations (popularly know as "Super 301" investigations) of priority countries' practices, and seek to eliminate them through negotiations to be conducted during the following 12 or 18 months, depending on the nature of the practice. If we are unable to eliminate these practices, we are required to determine whether the practices are "unfair" within the meaning of section 301, and if so to take appropriate action, which could include retaliation.

Interagency committees have been working since early February to develop information on significant trade barriers. The TPRG will meet over the next two weeks, according to the attached schedule, to consider potential priority practices. In order to ensure that the EPC has ample opportunity for review, I will present a comprehensive Super 301 package to the EPC by May 12; I intend to have recommendations on the President's desk no later than May 19.

Attachment

DECLASSIFIED

PER DOS WAIVER, November 6, 2015

By RM NARA, Date 05/16/25

~~CONFIDENTIAL~~

CLASSIFIED BY *S. Smith*

DECLASSIFIED ON *OADR*

~~CONFIDENTIAL~~

TPRG SCHEDULE

May 1 EC airbus subsidies
 EC heavy electrical equipment procurement

May 2 Brazil import licensing
 Brazil investment barriers

May 4 Japan semiconductors
 Japan supercomputer procurement
 Japan TRON procurement
 Japan satellite procurement

May 5 Japan anticompetitive practices (including
 soda ash, private construction projects)
 Japan distribution system (including auto parts)
 Japan forest products
 Japan export targeting in hi-tech sector
 Japan rice and fish quotas

May 8 (a.m.) Korea agricultural barriers
 Korea border closure laws to protect domestic
 industry
 Korea investment barriers

May 8 (p.m.) Special 301 (intellectual property) priority
 designations

May 9 (a.m.) Reserved for additional Super 301 priority
 practices that may be added

May 9 (p.m.) Taiwan exchange rates
 Taiwan distribution system
 Taiwan import licensing
 Taiwan alcoholic beverage import monopoly
 Taiwan standards, labelling, certification
 Taiwan tariffs

 India insurance barriers
 India investment barriers
 India import licensing
 India government procurement barriers

May 10 Consideration of what countries should be
 priorities under both Special and Super 301

DECLASSIFIED

PER DOS WAIVER, November 6, 2015

By RLW NARA, Date 05/16/25

~~CONFIDENTIAL~~

THE WHITE HOUSE

WASHINGTON

December 2, 1988

MEMORANDUM FOR JOHN SUNUNU

FROM: ROBERT W. SWEET JR. 

SUBJECT: Domestic Policy Development

Since 1985, I have been a staff member of the White House Domestic Policy Council. During this period, Chief of Staff, Don Regan, consolidated the Cabinet Council system from nine councils to two -- the Domestic and Economic Policy Councils. I have made some observations about how well the process has worked and have some recommendations to suggest regarding how it could be strengthened.

A brief review of Presidential decision-making may be helpful in understanding the current process. Therefore, I have attached several diagrams that describe the Nixon, Carter, early Reagan, and current Reagan White House policy processes. They are self-explanatory (see Attachment A). In addition, I have included a proposal which describes how the Bush policy process could be organized, domestic issues identified, and decision memoranda presented for Presidential approval, immediately following the inauguration (see Attachment B).

There are many ongoing domestic issues that the new administration will face, and others that the President-elect will want to emphasize. However, the process for identification, approval, and implementation of policy options is critical to the success of any Presidency.

I believe "Managed Multiple Advocacy" offers an opportunity for the Bush Administration to build on the Reagan successes and provide direction for domestic policy that will set a new and higher standard of White House leadership (see Attachment C).

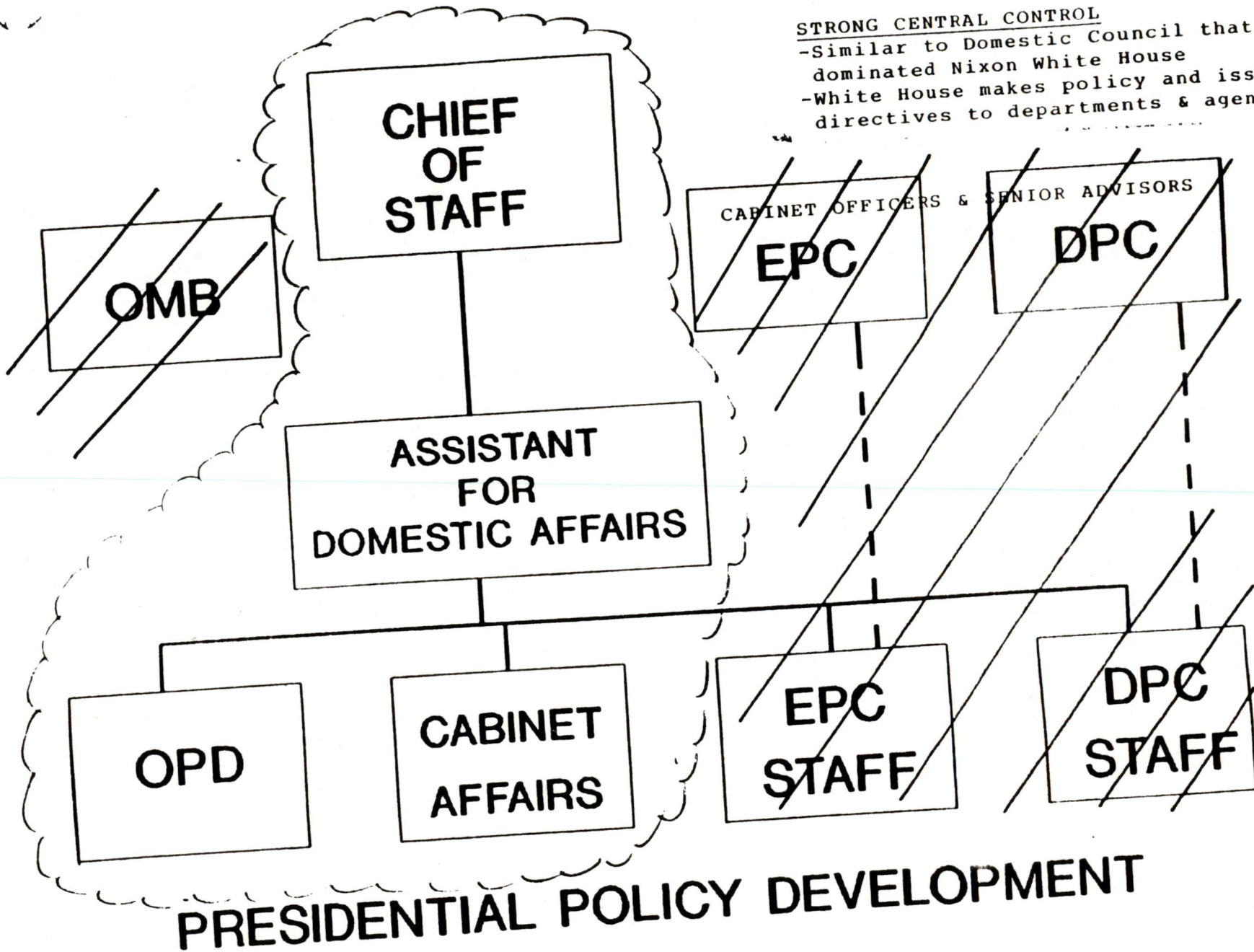
One specific idea that the President-elect may wish to consider is to designate the Vice President as Vice Chairman of both the Domestic and Economic Policy Councils. This would be a substantive job, and with his position as President of the Senate, would be a powerful way to move Administration legislative proposals through the Congress.

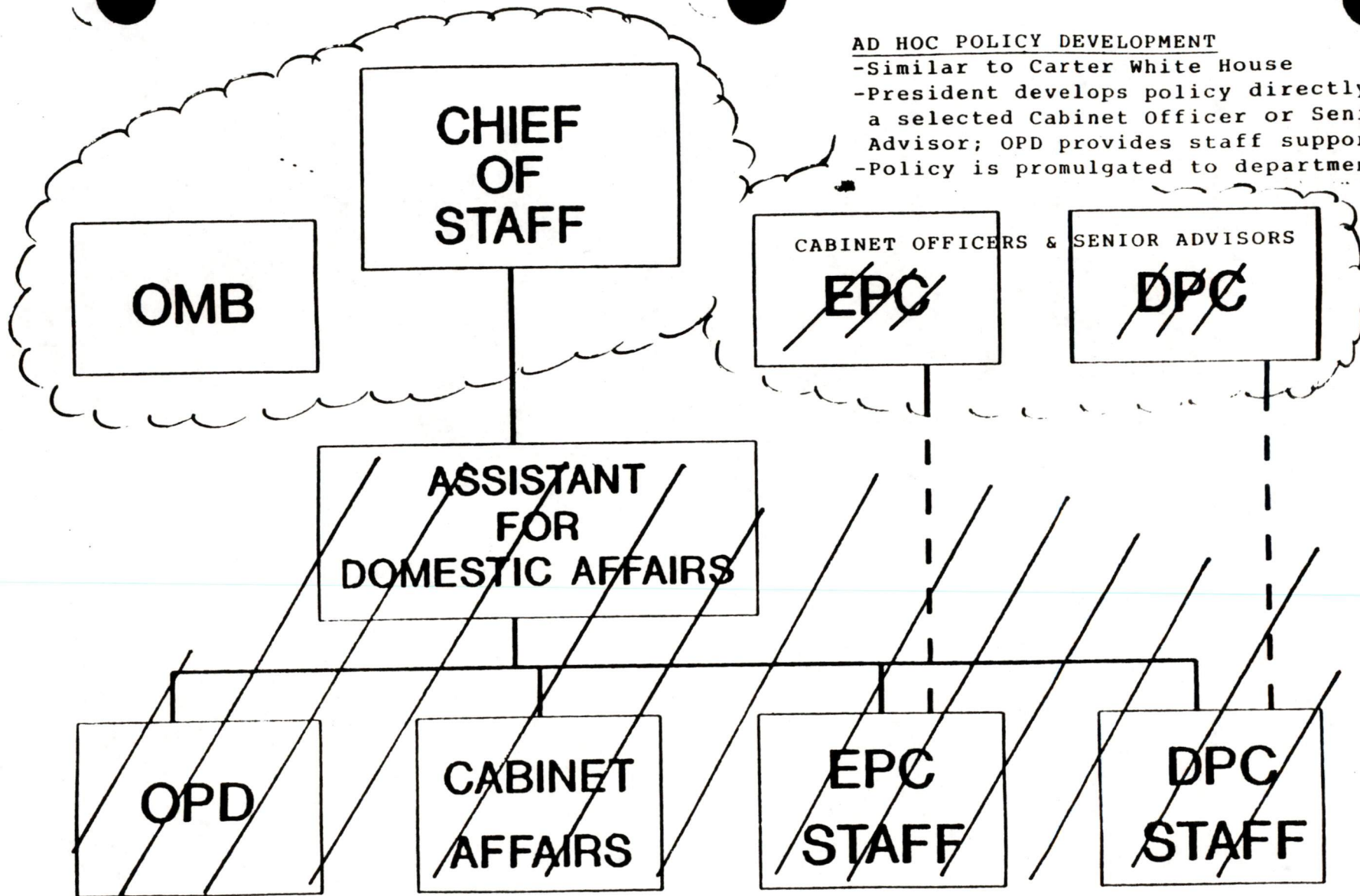
The Domestic Policy Issues Book (see Attachment D) has been submitted to the transition team, but the process described in this memorandum is my own. I hope you will find it useful. As you know, I am available to discuss these issues in more detail, if you so desire.

You will do a superb job as Chief of Staff. Congratulations!

STRONG CENTRAL CONTROL

- Similar to Domestic Council that dominated Nixon White House
- White House makes policy and issues directives to departments & agencies





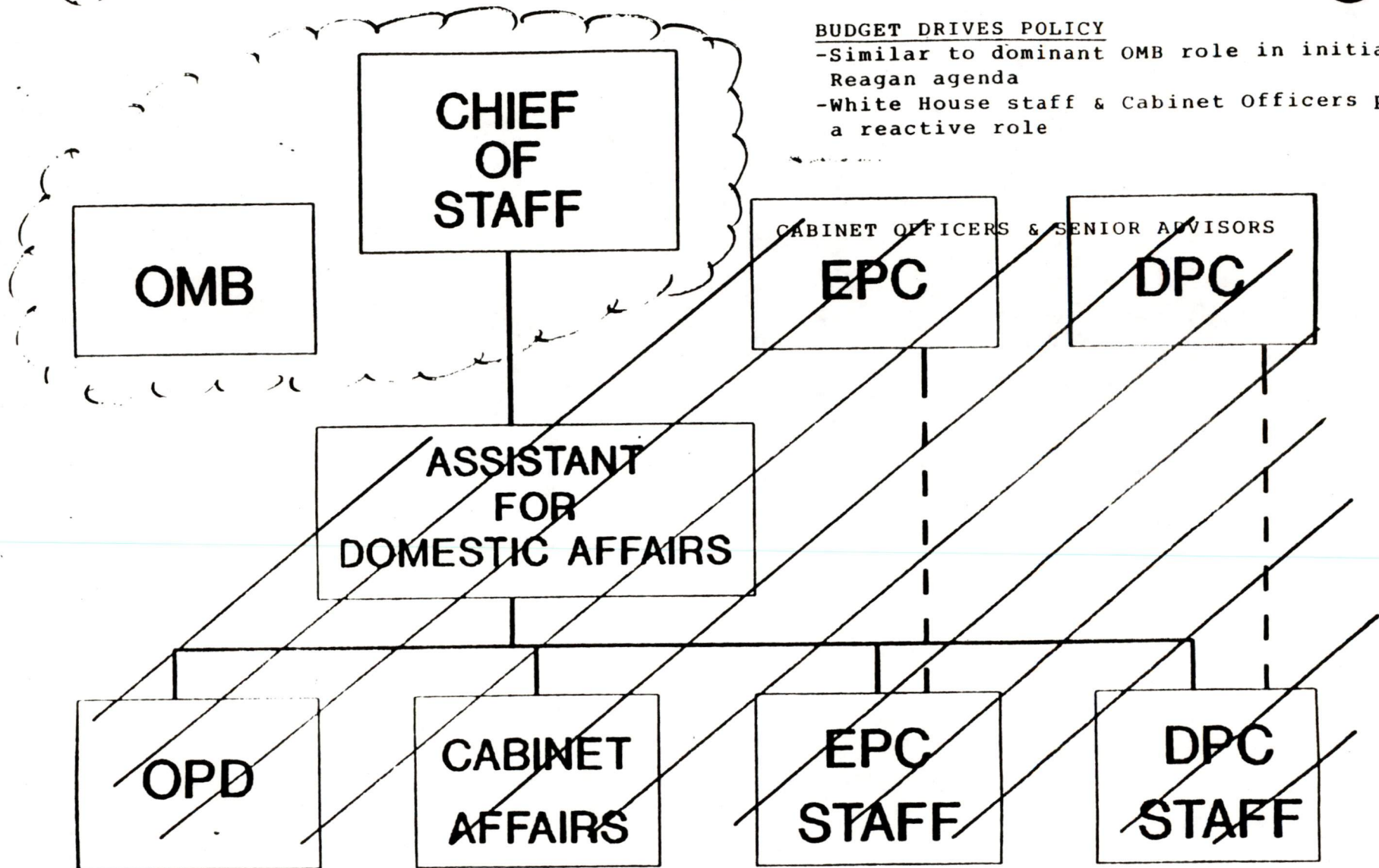
AD HOC POLICY DEVELOPMENT

- Similar to Carter White House
- President develops policy directly with a selected Cabinet Officer or Senior Advisor; OPD provides staff support
- Policy is promulgated to departments/agencies

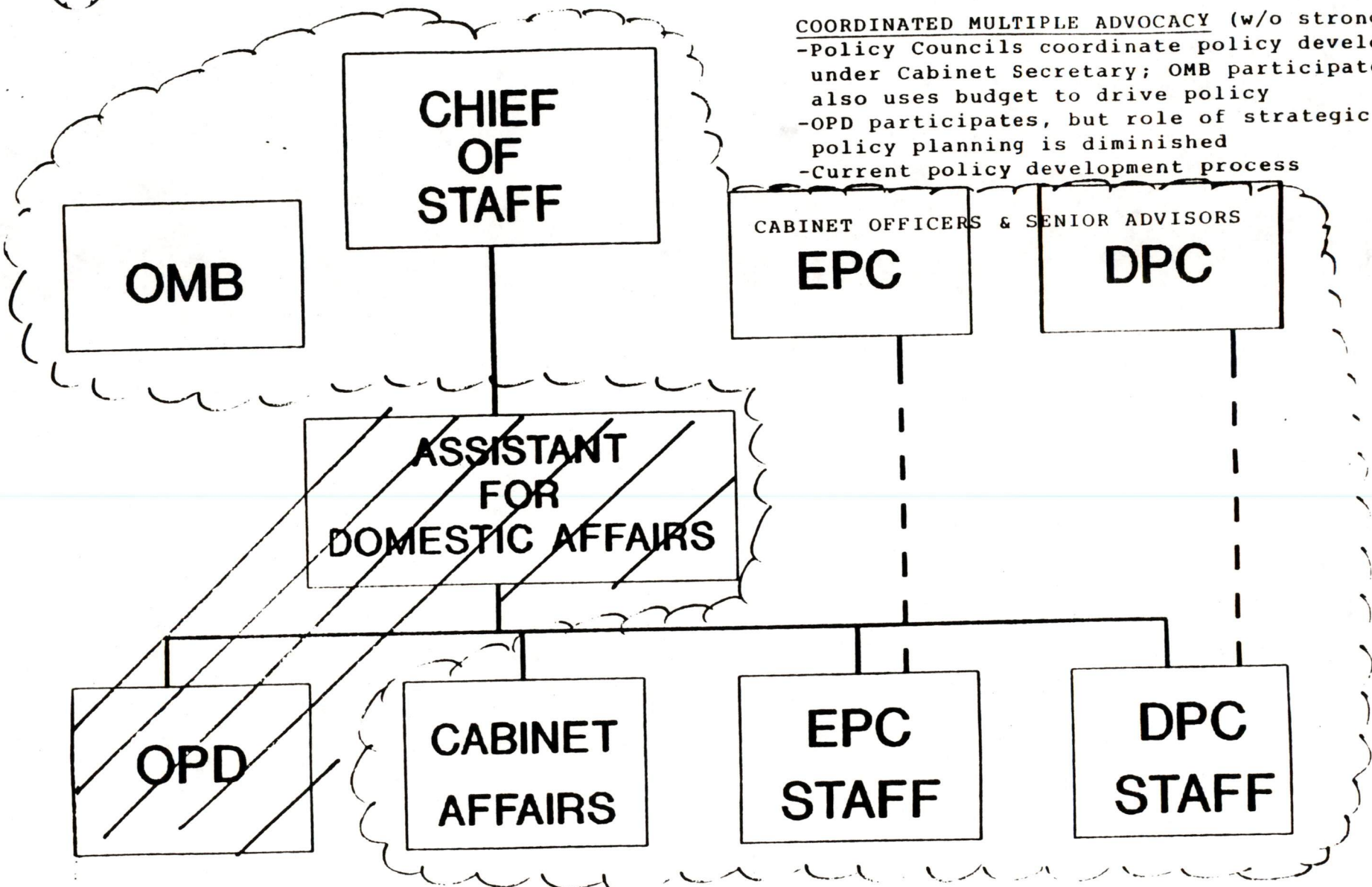
PRESIDENTIAL POLICY DEVELOPMENT

BUDGET DRIVES POLICY

- Similar to dominant OMB role in initial Reagan agenda
- White House staff & Cabinet Officers play a reactive role



PRESIDENTIAL POLICY DEVELOPMENT



COORDINATED MULTIPLE ADVOCACY (w/o strong OPD)
-Policy Councils coordinate policy development under Cabinet Secretary; OMB participates, but also uses budget to drive policy
-OPD participates, but role of strategic policy planning is diminished
-Current policy development process

PRESIDENTIAL POLICY DEVELOPMENT

THE WHITE HOUSE

WASHINGTON

DOMESTIC POLICY DEVELOPMENT**A framework for supporting the transition
of Presidential Policy Development**

Purpose. This framework provides a systematic approach to identify, define, and develop domestic policy issues which a new administration may face as it continues important initiatives, begins to implement its own agenda, and reacts to issues that will arise externally.

Framework. Transition of the domestic policy process should support the desires and decision-making style of the President-elect, build upon previous experience, and preserve necessary continuity while accommodating change and new initiatives. A three phase approach could be used to accomplish these objectives, as follows:

- o **Phase I:** Identify a wide range of domestic issues within broadly defined policy areas. Use sources such as: the current Domestic Policy Council (DPC) agenda, current OMB issues, probable congressional initiatives, the 1988 platform, campaign issue papers, publications by policy advocacy groups, and input from the departments, agencies and senior White House Staff.
- o **Phase II:** Define 30-40 selected issues using short (1-2 page) papers. Use DPC format to: state the issue, provide background, discuss policy/budget implications including opposing views, identify options, and make a policy recommendation, including required implementation actions (such as a report to the President, a budget decision, an executive order, or new legislation).
- o **Phase III.** Develop 10-12 selected issues as draft DPC issue papers (4-6 pages). Provide sufficient policy and budget information, including fully developed options with pros and cons, to support cabinet level discussions and Presidential decisions.

Implementation. Implementation of the three phase approach discussed above could proceed as follows:

- o **Phase I:** Domestic policy issues could be identified from source documents and through contact with other interested staffs. All issues could be listed and categorized. The most pressing 80-100 issues could be described further by: a short title, source info, a 1-3 sentence description (including a general statement regarding budget implications), the required policy decision, implementation action and timeframe.

- o Phase II: Policy implications and available options for 30-40 selected issues could be further defined following review of Phase I by Senior White House staff and the transition staff. The transition staff could also modify or refine the broad policy categories and the comprehensive listing of domestic issues. The transition staff could then begin to establish transition working groups to address issues within the established domestic policy areas.
- o Phase III. The short issue papers developed in Phase II could then be reviewed by the transition staff who could identify 10-12 issues that the new administration may address within its first 60-90 days. These issues could be assigned to transition working groups with White House staff support to develop fully staffed draft issue papers for prompt consideration by a new Domestic Policy Council and its supporting Working Groups. In some cases, final recommendations could support Presidential decisions and prompt Executive action shortly after the inauguration.

Summary. Documents required to support the transition of the President's Domestic Policy Development Process could be developed within a framework that mirrors the current Domestic Policy Council system. Initially, White House staff could develop issue summaries which support strategic policy planning and provide continuity with respect to ongoing issues. Then, the current staff could coordinate with the transition team to provide support to define and develop those issues which will form the initial agenda of the new administration.

The goal of this effort would be a Domestic Policy Notebook that could serve as a working document. It could summarize the domestic issues that a new administration may confront, narrow those issues into a proactive agenda set by the transition team, and focus effort on the most pressing issues that could be fully staffed by mid-January to allow a new administration to seize the initiative during its first 90 days. The notebook could also provide a menu for further action by the new administration's domestic policy team, and serve as a guide that preserves continuity while initiating change.

EOP/WHITE HOUSE STAFF BY FUNCTIONS

LEADERSHIP

- LEGISLATIVE AFFAIRS
- PUBLIC LIAISON
- POLITICAL &
INTERGOVERNMENTAL
AFFAIRS
- COMMUNICATIONS
- PRESS

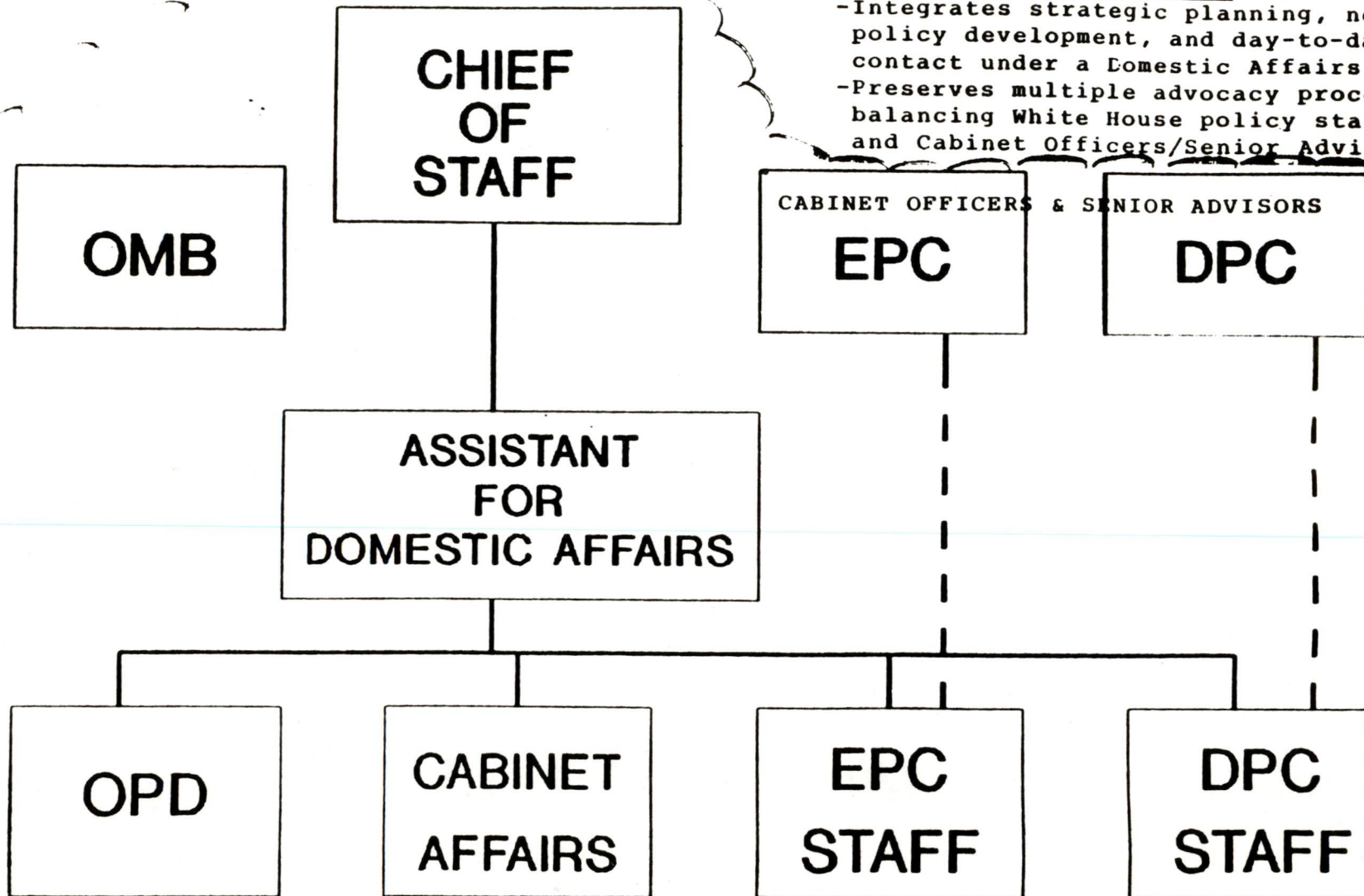
POLICY

- NSC STAFF
- DPC STAFF
- EPC STAFF
- POLICY DEVELOPMENT
- CABINET AFFAIRS
- OMB
- CEA
- OSTP
- COUNCIL ON
ENVIRONMENTAL QUALITY
- US TRADE REPRESENTATIVE

SUPPORT

- ADMINISTRATION
- WHMO
- WHCA
- COUNSEL
- ADVANCE
- APPOINTMENTS/
SCHEDULING
- CORRESPONDENCE
- SECRET SERVICE
- PRESIDENTIAL
PERSONNEL
- STAFF SECRETARY

MANAGED MULTIPLE ADVOCACY (w/ strong OPD)
-Integrates strategic planning, near-term policy development, and day-to-day agency contact under a Domestic Affairs Advisor
-Preserves multiple advocacy process while balancing White House policy staff; OMB; and Cabinet Officers/Senior Advisors



PRESIDENTIAL POLICY DEVELOPMENT

POLICY DEVELOPMENT PROCESS

The proposed framework for supporting the transition of Presidential Policy Development could be implemented as follows:

- o Establish the membership of the Domestic Policy Council (DPC) and the Economic Policy Council (EPC).
 - The President serves as Chairman of both Councils
 - Designate Chairmen Pro Tempore (Vice Chairmen)
 - Announce membership
- o Appoint Executive Secretaries for each Council and establish Secretariat staffs.
- o Establish Domestic and Economic Policy Planning Groups, i.e. the DPPG and the EPPG.
 - DPPG: Domestic Advisor (Chair), Deputy Director OMB, Director OPD, Cabinet Secretary, Special Assistant to the DPC Chairman Pro Tempore; DPC Executive Secretary
 - EPPG: Domestic Advisor (Chair), Deputy Director OMB, Director OPD, Cabinet Secretary, Special Assistant to the EPC Chairman Pro Tempore, EPC Executive Secretary
- o Convene transition DPPG and EPPG to:
 - Establish major policy themes
 - Select priority issues
 - Identify required interagency working groups
 - Appoint transition working groups
- o Task Executive Secretaries to:
 - Initiate preparation of draft issue papers
 - Coordinate with transition working groups
 - Prepare final papers for Council consideration

Following the Inauguration, the Administration could:

- o Hold an initial Cabinet Meeting to:
 - Explain the DPC and EPC structure, function and process
 - Highlight the major policy themes and priority issues
 - Solicit comments from the Cabinet
 - Announce the initial DPC and EPC schedules
- o Formally establish working groups and appoint chairmen and members.
- o Convene the DPPG and EPPG on a weekly basis to:
 - consider cabinet/agency and senior staff input
 - identify new issues
 - monitor the status of active issues
 - set the agenda for council meetings
 - track implementation of policy decisions
- o Convene DPC and EPC meetings.
 - Meet with or without the President
 - Consider issues, discuss options, present recommendation(s)
 - Respond to questions
 - Receive guidance and decision at or following Council meeting
- o Issue Domestic Policy Decision Directives (DPDDs) and Economic Policy Decision Directives (EPDDs) as required to announce and implement Presidential decisions.