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DECISION MEMO
(LONG VERSION)

C



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

MAY 10 1979

MEMORANDUM FOR THE PRESIDENT

FROM:

Jim McIntyre *Jim*

SUBJECT:

Reorganizing the Government's Trade Functions

This memorandum requests your guidance on what should be the Administration's position on trade reorganization. We have promised Chairman Ribicoff and others such a position soon. An EOP/agency task force has worked intensively on these matters for the past two months and a number of drafts of this memo have been circulated.

This memorandum summarizes the most promising issues we have considered. By way of introduction, we briefly describe our current trade organization, growing demands for change and the limited ability of organizational change to resolve chronic trade problems. Subsequently, we assess the congressional and interest group politics. We then address problems and present organizational recommendations for the four principal trade roles of the government:

- I. Export Promotion
- II. Import Relief
- III. Trade Policy Direction
- IV. Trade Negotiations

Although there is contention within the Administration on specific reorganization options, most of your advisors and most of the affected agencies have reached a general recommendation on trade reorganization. There is no support for a new Cabinet department or new agency. Most favor enhancing the Commerce Department's role in export promotion and giving it greater responsibilities in post-MTN monitoring and implementation. Most also favor the continuation of STR, playing its negotiation and policy coordination roles, in the Executive Office. There is not agreement on whether to consolidate import relief in Commerce.

Introduction

Current Trade Organization

Major trade functions are located in eight departments and agencies today (Exhibit I). Although the Special Trade Representative (STR) takes the lead role in administering the trade agreements program, many issues are handled elsewhere and no agency has across-the-board leadership in trade. Aside from STR and the Export-Import Bank (Eximbank), trade is not the primary concern of any agency where trade functions are located.

Trade policies are coordinated by a network of special purpose committees with varying memberships. Ad hoc bodies and mechanisms abound to address particular trade issues. And some trade policies (e.g., dumping and countervailing duties) are not coordinated among agencies.

Growing Demands for Change

In the past, our trade functions have worked reasonably well in their existing locations. Recent events have focused more attention on the vitality of our trade position and on the way our trade machinery is organized. These events include our deteriorating trade position, increasing dependence on foreign oil, and the weakening of the dollar. New challenges such as trade with state economies and MTN implementation will test our organization.

The Multilateral Trade Negotiations (MTN) debate has heightened interest in, and dissatisfaction with, current trade organization. Some legislative leaders are demanding we get our trade machinery in better working order as a condition for MTN passage.

While there has been high interest in and advocacy of trade consolidation in the Senate, some will certainly passionately resist the movement of certain units. (Most important House leaders have not shown a strong interest). The National Association of Manufacturers and Chamber of Commerce favor radical organizational surgery while the Business Round Table does not have a formal position.

Limitations of Organizational Change

Our organizational structure is not the primary cause of our trade problems. To a large extent, import problems reflect the inability of domestic industry to meet foreign competition. Our competitive disadvantages include higher-cost labor, low productivity growth, inefficient and outmoded facilities, changing market demands, legal disincentives associated with other domestic or international policies and export policies less vigorous than those of some other countries. Restructuring trade organization will not in itself improve the competitive position of United States industry.

Most of our trade policies are the sum of a number of other domestic and international policies that rarely recognize trade as a prime goal. Antitrust, minimum wage, international business practices, energy, tax incentives, concerns for human rights and the environment, national security and relationships with certain nations often conflict with and dominate trade issues. Many significant policy conflicts will continue to require Executive Office resolution, even if the most comprehensive proposals herein are put into effect.

Some critics of our current trade organization seek to move certain trade functions to different settings with the hope that the new setting may give the critics' concerns a more sympathetic hearing. Thus, those who favor protection of domestic industry and believe the Treasury to be dominated by "free traders" seek the transfer of Treasury's import relief functions to Commerce or to a new department where they expect a more sympathetic view. And some believe that export and import functions should be co-located to ensure that maximum leverage is available in our dealings with other nations on any trade matter. On the other hand, those dissatisfied with the low priority accorded trade concerns in foreign policy or domestic affairs seek a single-purpose trade advocate in the Executive branch.

In summary, reorganization will not resolve most of the fundamental trade problems this country faces because they are rooted in the other policies or in the long term trends affecting industry competitiveness. Nor will trade reorganization result in a significant reduction in Federal employment or expenditures. Reorganization may help in the area of policy coordination and may ameliorate some of the marginal problems in terms of our trade position. It can give trade problems a higher priority, reduce the burden on exporters in dealing with government, and strengthen the administrative effectiveness of our trade programs. And in the face of the new MTN agreement, trade reorganization may be an important signal of the Administration's concerns for and commitment to an effective trade position in the post-MTN world.

Political Assessment

We have discussed trade reorganization options with principal interest groups and key members of Congress. Our findings are as follows:

Interest Groups

We have consulted with business and labor interests on trade reorganization. In general, business would like to see trade concerns represented more aggressively and effectively at senior levels of the Executive branch. However, the major business groups have differing views about the kind of reorganization they would prefer and the importance they attach to reorganization as a means of addressing the "trade problem." Major business organizations have the following views:

National Association of Manufacturers (NAM). NAM is the strongest proponent of a new trade department and is currently supporting Roth-Ribicoff. While they prefer a new department to building on Commerce, they would probably support a Commerce-based reorganization. Even with major trade consolidation, they recommend a strong inter-agency trade council.

Chamber of Commerce. The Chamber favors building on Commerce in the areas of trade and investment. Unlike NAM, they would be concerned about moving import relief functions (e.g., Treasury's antidumping) to Commerce, fearing increased protectionist influence over them.

Business Round Table (BRT). The BRT has no formal position on trade reorganization, other than that policy coordination in the EOP should be strengthened. They do not at this time favor a new department, and their membership is divided regarding building on Commerce.

The AFL-CIO declined to indicate a position at this time. They appear to believe that significant trade reorganization is not a serious legislative prospect. They do assert that Treasury does not handle well its import relief responsibilities, that there is no effective voice to offset the State Department's lack of concern about domestic impacts of international trade decisions, and that the Export-Import Bank enjoys too much policy independence. Their posture can best be described as defensive -- they would not press for trade reorganization, but could be provoked to action if the "wrong" kind of reorganization became viable in Congress.

Congressional

General Considerations

There is significant support for trade reorganization in the Senate. Majority Leader Byrd, as well as Senators Ribicoff, Stevenson and Roth are active supporters of a separate Department of Trade. (See Exhibit II.) A number of other Senators are supportive of the general concept but have given far less attention to such details as the programs to be transferred (e.g., Senator Long). Others who have been involved in varying degrees are Senators Inouye, Bentsen, Moynihan, Danforth and Heinz. While there is widespread dissatisfaction with the status quo, Senate interest in trade reorganization is, in some cases, also based upon tactical considerations related to MTN. Senator Ribicoff, who will be the Finance Committee's floor leader on MTN, believes that a realignment of trade functions is necessary in order to deflect opposition to MTN. Senators Byrd and Long share this view. While it seems likely that a visible change in the current operation of our trade programs would be very helpful in passing MTN, it is unclear how many votes would actually be affected. On the other hand, if the reorganization is not handled properly, it could cause problems for MTN passage.

In the House, there is less active support for reorganization, although there is dissatisfaction with the current operation of certain trade programs -- primarily countervailing duties (CVD), antidumping and commercial officers. The principal supporters of MTN see no need for reorganization to sell it and therefore are indifferent. As the MTN legislation moves forward in the House, however, we anticipate that interest in reorganization will also grow.

We have spoken with the following House members or their principal staff: Vanik, Gibbons, Jim Jones, Conable, Zablocki, Bingham, Neal, Neal Smith, Edgar and Brooks. When asked, almost all agreed that "something" ought to be done about trade. Few of them have given serious thought to specific options and, therefore, their present lack of opposition to specific program transfers should not be taken as indicative of the positions they may take ultimately. Congressman Neal has introduced both the Byrd and Ribicoff bills in the House as a way to focus and promote trade reorganization discussion, but he claims he does not endorse these bills.

In summary, Senate interest in trade reorganization is sufficiently strong so that Senators Byrd and Ribicoff can probably pass a Department of Trade bill any time they wish. However, at least for the time being, it is generally agreed that no major reorganization proposal is likely to pass the House without active Administration support.

Structural Options

Assuming they favor any reorganization, the first choice of virtually every member of the House or Senate with whom we spoke is creation of a separate Department of Trade. However, when asked to express a "second choice," there is a significant divergence of views. Among Senators, only Ribicoff prefers a Commerce-based option as his second choice. According to their staffs, Senators Stevenson and Roth prefer an independent trade agency to any use of Commerce as a base. Senator Byrd opposes building on Commerce without indicating what his second choice would be.

In the House, Bingham, Neal Smith and Brooks all oppose any enhancement of the Department of Commerce, although none of them has a firmly held view. Bingham wants to get Commerce out of trade and prefers an enhanced STR. Smith thinks that Commerce (ITA) has done a poor job to date and would prefer that new functions go almost anywhere else. Brooks dislikes Commerce, period. Vanik feels that reorganization of trade functions is largely a waste of time, since the same people will end up running the programs wherever they are located.

Programmatic Issues

Of all trade programs in the Federal Government, the Treasury Department's operation of CVD and antidumping and the State Department's Commercial Officers are the most frequently criticized. Among those members who are aware of Commerce's role, there is general dissatisfaction regarding the manner in which the programs are run. Some members of the Foreign Relations Committees presumably would object to any attempt to take the Commercial Officers away from State, but they stand virtually alone. Neither House Ways and Means nor Senate Finance will defend Treasury's retention of CVD or antidumping. All in all, no one in the Congress is prepared to defend the status quo.

With the exception of Senator Long, all interested Senators support moving STR to a new trade agency. Long is concerned that any transfer of STR will result in a diminution of the status of the coordination and trade policy functions STR performs. He would prefer to leave STR where it is. Congressman Bingham shares this view and would enhance STR's role.

Conclusion

We believe that the Administration could, if it wished, pass a bill creating a Department of Trade or an independent trade agency on the model of EPA. Either of those would be relatively popular political issues here and in the country at large. A major transfer of trade functions to the Department of Commerce (particularly functions involving trade policy or import controls) might be substantially more difficult.

No agency or advisor recommends that you establish either a Cabinet-level Department of Trade or an independent trade agency. Hence, the following options do not include a proposal for such a department. Ambassador Strauss does not believe "that the options laid out go far enough to meet the strong interest of Senators Ribicoff, Roth, Byrd and others and might only complicate our dealings over the MTN package. It seems to me that our best approach is to incorporate in the MTN enabling legislation a promise that the President will report a reorganization plan to the Congress within 60 days of the approval of the package." However, the language presently proposed by the Senate Finance Committee for inclusion in the MTN obligates the Administration to propose a new department and transfer agencies and functions that most of the Administration oppose.

In the following sections we address problems and present recommendations for four major trade roles of Government:

- I. Export Promotion
- II. Import Relief
- III. Trade Policy Direction
- IV. Trade Negotiations

I. Export Promotion

The continuing trade deficits have heightened public and congressional concern about export performance. Strengthening our export promotion programs through reorganization is a substantively logical and perhaps politically imperative step. MTN provides an attractive vehicle for change.

In addition to tax incentives, U.S. export promotion activities include trade financing and marketing assistance. These activities are carried out by the Eximbank, the Commodity Credit Corporation (in USDA), the Commercial Officers (in State), the Foreign Agricultural Service (in USDA) and the Commerce Department. Additionally, the passage of MTN will provide new export opportunities for industry and new export expansion responsibilities for the Government.

The Agriculture programs are working well and our past experience has shown that transferring functions from USDA is very difficult even in the face of compelling substantive arguments. Thus, the changes discussed here are limited to the Eximbank, the Commercial Officers and the new post-MTN export expansion responsibilities.

Eximbank Organization Options

Eximbank provides direct loans, guarantees and insurance to finance exports (\$10 billion new activity in 1980). Eximbank has a full time board of Presidentially appointed directors. Eximbank now receives policy advice on transactions from a National Advisory Council on International Monetary and Financial Policies (NAC) composed of Treasury, Commerce, State and the Federal Reserve Board. Although generally credited with doing a good job, Eximbank has been criticized for supporting trade promotion where there is little foreign competition and where other commercial financing is available. We provide two options to strengthen Eximbank's export expansion role:

Option 1. Move Eximbank to Commerce, appoint the Secretary of Commerce as Chair, and keep the full time board of Presidential appointees. In the absence of the Secretary or Undersecretary, the Eximbank President would Chair. NAC advice would continue. The Secretary of Commerce would provide policy guidance and direction.

Pros

- o Would strengthen the Government's ability to promote exports by increasing coordination and consistency between its promotion and financing arms.
- o Would signal a strong commitment to increasing exports.
- o Would employ a structure that has been used successfully elsewhere (i.e., CCC in the Department of Agriculture).
- o Would reduce the number of separate agencies providing export assistance.

Cons

- o Would diminish the advantages of an "anonymous buffer" provided by an independent bank (e.g., State cannot now be accused of being unfaithful to a particular country if a loan application is denied). If Eximbank becomes part of an Executive Department this flexibility would be lost.
- o Might weaken the role of the NAC in reviewing Eximbank policies.
- o Could imperil the objectivity of Eximbank's credit decisions if promotional considerations become paramount.

Option 2. Secretary of Commerce chairs Board of independent Eximbank. Eximbank President serves as chief executive officer and chairs in absence of Secretary or Undersecretary. NAC advice would continue.

Pro

- o Establishes more defined channel for high level presentation of agency views and communication of Administration concerns.

Con

- o Lack of major change in present structure could be viewed by some as cosmetic.

Decision:

Option 1. Move Eximbank to Commerce with a full time board of Presidential appointees. Secretary of Commerce gives policy direction and serves as Board Chair.

_____ (Supported by CEA, DPS, OMB, Pettigrew, Commerce, Labor, Treasury; Pettigrew also recommends merger of Commerce and Eximbank administrative services.)

Option 2. Appoint the Secretary of Commerce Board Chair of an independent Eximbank.

_____ (Supported by State, acceptable to Eximbank.)

Option 3. No change from independent agency status, other than policy advice from general advisory group chaired by Commerce.

_____ (Supported by Eximbank; Owen/NSC support this option provided Commerce chairs the NAC.)

Commercial Representation Options

The State Department's Commercial Officers, who represent U.S. commercial interests abroad, are criticized by some Members of Congress and some American businessmen.

- The debate over the effectiveness of Commercial Officers centers upon whether the function is better staffed by Foreign Service Officers in State or employees of Commerce. Critics claim that commercial representation is subordinated to economic reporting, attracts less capable Foreign Service Officers and further, that the skills, training and career aspirations of diplomats are not consistent with the job requirements for commercial representation.

Recently, each embassy has been instructed to harness all of the embassy resources -- political and economic -- to support commercial interests abroad. Further, economic and commercial activities are handled by one person in smaller embassies; separating them there could require extra overseas personnel.

Two options could strengthen our commercial representation:

Option 1. Move the Commercial Officers from State to Commerce.

Pros

- o Would put both domestic and overseas export promotion staffs under an agency that emphasizes expanding U.S. exports. USDA's successful system is an effective example of integrating foreign and domestic promotion.
- o Would symbolize visible improvement that would be appreciated by Congress.
- o Would be consistent with Ribicoff and Byrd proposals.
- o Specialists from other agencies already perform similar functions and do not detract significantly from ambassadorial control or foreign policy cohesiveness (e.g., USDA and Treasury Attaches).

- o Could better attract personnel with career interests in business assistance and export promotion.

Cons

- o Would separate commercial activities from economic activities, which are closely allied, and could add to the number of U.S. officials overseas.
- o Would be a complicated personnel change that would take some time to effect.

Option 2. Retain the Commercial Officers in State, but strengthen Commerce's role in managing them. State and Commerce would prepare a joint commercial budget and work plan for commercial representation. State would upgrade substantially the priority of commercial affairs. Commerce would have a formal, equal role in the selection, training, annual evaluation reports, assignments and recommendations for promotion of Commercial Officers.

Pro

- o Would increase the business orientation of commercial affairs without moving personnel or positions.

Cons

- o Similar changes have been agreed to in the past without success.
- o Even with greater cooperation, State and the Foreign Service may continue to dominate personnel control, to the detriment of commercial priorities.
- o May not satisfy those on the Hill and in the business community who want to see commercial representation in a trade department.

Decision:

Option 1. Move the Commercial Officers from State to Commerce.

_____ (Supported by CEA, DPS, Pettigrew; OMB supports on condition that only enough officers to handle our major trading partners are transferred; acceptable to Commerce.)

Option 2. Retain the Officers in State, but strengthen Commerce's role in managing them.

_____ (Supported by Owen/NSC, State, Treasury; acceptable to Commerce.)

Post-MTN Monitoring and Implementation

Monitoring and implementing the MTN's international codes on trade practices will impose substantial new monitoring, procedural, and enforcement requirements. To some extent these codes will be self-executing, since each country will put the codes into effect for itself. But we must be prepared to monitor major implementation measures abroad and to raise questions about foreign implementation.

We recommend that all MTN monitoring and implementation responsibilities be placed in Commerce. This would assure consistent monitoring by an agency for which trade is a primary concern and that has adequate supporting staff.

Decision:

_____ Yes (Supported by OMB, Owen/NSC, Pettigrew, Commerce, State, Treasury.)

_____ No (Supported by DPS, Agriculture and Labor who favor maintaining post-MTN monitoring and implementation in the agencies with individual expertise.)

II. Import Relief

We have examined the three major areas of import relief: (1) administration of antidumping and countervailing duties (CVD), (2) the International Trade Commission's (ITC) unfair trade practices function, and (3) the Trade Act's import relief provisions (now located in STR). Critics complain that the existing dispersion of responsibilities (see Exhibit I-b) retards efforts to obtain import relief and has, at times, resulted in inconsistent actions by different units of government.

Further, export functions are in large measure today separated from import functions, despite the fact that dealings with other nations often encompass both import and export matters.

Antidumping and Countervailing Duty (CVD) Cases

Countervailing and antidumping duty cases, in which foreign producers are accused of receiving subsidies or selling below fair market value, are handled by Treasury's Office of Tariff Affairs (11 people) and supported by other Treasury personnel (in Customs, etc.). This is the most severely criticized import administration function. Other agencies, as well as private sector and congressional voices, complain of delays and allege unexpected policy changes, lack of coordination, and, on occasion, actions inconsistent with other U.S. trade actions. A 1979 GAO report on dumping concluded that "long periods of time required to conduct investigations, and delays averaging 3 to 3 1/2

years in assessing duties after findings of dumping, make it highly improbable that U.S. industry is being adequately protected by the Antidumping Act."

Both the amended antidumping code and the new, highly significant code on subsidies and countervailing duties emerging from the MTN will require changes in administration. Satisfaction with the way the Administration will administer these laws will be a critical element in securing congressional approval of MTN. Treasury now wishes to increase the resources devoted to CVD and dumping. It has also been suggested that regular interagency consultations might be in order.

We offer two options:

Option 1. Retain in Treasury, but establish interagency consultation* and increase resources.

Pros

- o Would assure other agencies a chance to comment.
- o Would be less disruptive than transferring units.
- o CVD/dumping function would remain close to Customs.
- o Faster enforcement may result from increased resources Treasury has proposed for this area.

Con

- o Unlikely to satisfy private sector and congressional critics.

Option 2. Transfer the CVD and antidumping functions to Commerce (and provide for interagency consultation*).

Pros

- o Would place functions in a department likely to give a higher priority to faster enforcement.
- o Would help satisfy congressional pressure for trade reorganization and may improve chances for MTN approval on the Hill.
- o Would appear to respond to business criticism of CVD and anti-dumping enforcement.

* Interagency consultation would center about coordination and timing with related trade issues. The case-by-case adjudicatory and factfinding functions would remain with either Treasury or Commerce.

Cons

- o The subsidies and dumping codes of MTN and the implementing law would tend to force greater discipline on timing of CVD and dumping cases regardless of where implementation is located.
- o Many critics of Treasury's role disagree not so much with the mechanics of its performance as with Treasury's alleged preference for non-protectionist policies.
- o CVD and dumping should not be further separated from the Customs Service, which is best placed to secure the necessary information and collect the duties assessed.

Unfair import practice cases (Section 337) (International Trade Commission)

Section 337 of the Tariff Act of 1930 authorizes the International Trade Commission (ITC) to investigate unfair trade practices and to apply sanctions when it determines that such practices have occurred. (The President may disapprove such determinations for "policy reasons".) For many years, ITC considered primarily patent infringement cases under this authority. Recently it decided that its mandate is considerably broader and negotiated a consent order involving Japanese color television imports that the Administration was able to review only after it was concluded.

In spite of ITC's close relationship with the Senate Finance Committee, the Roth-Ribicoff bill, sponsored by four members of the Committee, would transfer the Section 337 authority from the ITC to a new department. Senator Long's principal concern is not with this function, but with injury determination functions not proposed for transfer by this memo. The Commission would continue to determine whether a U.S. industry has been injured in dumping cases, a role that will also apply to CVD cases as a result of the MTN.

The option is to transfer the ITC's Section 337 authority to Commerce, under coordination by the Trade Policy Committee (TPC).

Pros

- o Would bring into the Executive branch the one import relief procedure not now under its control.
- o Would eliminate the possibility of the ITC using this authority to preempt other import relief measures contemplated by the Administration.
- o Would be an appropriate part of a consolidation of import relief measures in one agency.

Cons

- o The ITC's friends in the Congress, business and labor may object to any diminution of its autonomy or authority.
- o Overlapping jurisdictional responsibilities may be healthy, since they give business a choice among different relief measures.

Import-related operational functions of the Office of the Special Trade Representative

Along with its trade agreement and policy coordination functions, STR is charged with negotiating agreements under the Multifiber Arrangement on textiles, administering the Generalized System of Preferences, and implementing the escape clause and market disruption provisions of the Trade Act of 1974 (Sections 201-203 and 406). In each of these activities, STR depends heavily upon staff work provided by other agencies, principally Commerce and State. (Even if these operational functions are transferred, it will be important to retain the STR coordinating role for advice and recommendations to the President when he has the responsibility for action.)

Pros

- o STR's import relief authority could be consolidated with other import relief measures in one agency responsible for trade administration.
- o As the overall trade policy coordinator in EOP, STR's neutrality might be easier to maintain if it is divested of its operational responsibilities.
- o Operational responsibilities are more appropriately assigned to line agencies than to an EOP office.
- o Commerce already provides much of the staff work for these functions.
- o The functions could draw upon other Commerce resources such as industry sector analysis.

Cons

- o STR's operational activities in the past have not hindered its policy coordination role.
- o Many import relief cases concern agricultural products which should be considered by USDA rather than Commerce.

Decisions:Antidumping and countervailing duty functions:

- _____ Retain in Treasury, but establish interagency consultation and increase resources (Supported by CEA, DPS, OMB, Owen/NSC, Agriculture, State, Treasury.)
- _____ Transfer the CVD and antidumping functions to Commerce, and provide for interagency consultation (Supported by Pettigrew and Commerce.)

Unfair import practice cases (Section 337). (International Trade Commission).Transfer ITC's 337 authority to Commerce:

- _____ Yes (Supported by Owen/NSC, Pettigrew, Commerce.)
- _____ No (Supported by CEA, DPS, OMB, Agriculture, State, Treasury.)

Import-related operational functions of the Office of the Special Trade Representative.Transfer to Commerce:

- _____ Yes (Supported by OMB, Pettigrew, Commerce.)
- _____ No (Supported by CEA, DPS, Owen/NSC, Agriculture, Labor, State, Treasury.)

III. Trade Policy Direction

Trade policy coordination and negotiation (Part IV) cut across the trade expansion and import relief functions discussed above. (See Exhibit I-c.) Coordination among all interested agencies is uneven.

At least twelve agencies and departments are involved in the formulation and execution of U.S. trade policy: STR, State, Treasury, Commerce, Agriculture, Defense, Energy, Labor, Justice, Interior, Eximbank and the Executive Office (including OMB, NSC, the Domestic Policy Staff, and CEA). Policy direction activities range from definition of general policy positions to application of policies in specific cases.

The senior interagency trade group is the Trade Policy Committee (TPC), chaired by STR and including most of the above agencies. Below the TPC are the Trade Policy Review Group (TPRG), at the assistant secretary level, and the Trade Policy Staff Committee (TPSC), a working group. Additionally, there is an East-West Foreign Trade Board that was created

to consider commercial policy issues arising in dealing with non-market economies, and an Export Administration Review Board that coordinates strategic export controls with communist countries.

In addition, the National Advisory Council on International Monetary and Financial Policies (NAC), chaired by Treasury, is responsible for U.S. policy regarding trade finance, including providing advice to Eximbank and the CCC. Interagency groups also have been established to deal with commodity issues and export promotion.

Policy coordination has worked well in most instances. However, some complain that important trade policy issues are not addressed through the TPC mechanism and that policies on other issues that affect trade policy (e.g., taxes, human rights) are formulated without fully weighing the trade implications. The role of the TPC could be strengthened by including some or all of the following functions within its purview:

1. Coordinate the countervailing and antidumping duty policy through the TPC mechanism. This coordination would affect policy and timing matters, but not the case-by-case factfinding and adjudication.

Pros

- o The timing and nature of the findings affect other trade functions and negotiating positions.
- o Would blunt some of the criticism that Treasury is acting unilaterally.

Cons

- o As largely adjudicatory and statutorily mandated processes, many consider these issues inappropriate for the interagency process.
- o Could raise false expectations that the outcome of the process would be different, i.e., more favorable for industry.

2. Include under the TPC the formulation of U.S. policy on commodity agreements, now handled by the Office of International Commodities in State.

Pros

- o Would assure that all affected interests have a voice in decisions.
- o Would increase consistency in overall trade policy.

Cons

- o Commodity issues can have implications beyond the trade area.
 - o State already chairs an interagency task force that includes the basic TPC members.
3. Energy trade issues are resolved by Energy, although they affect other trade matters and could be coordinated by TPC. Lack of coordination between energy negotiators and trade policy interests in other agencies has caused embarrassment for the Administration in the recent past (e.g., inadequate provision for U.S. bidders on Canadian gas pipeline).

Pros

- o Oil imports are important to U.S. trade balance.
- o Included in the Byrd bill.

Con

- o Special nature of energy issues calls for special Energy expertise.

Decisions:1. Include antidumping and countervailing duty policy in the TPC.

_____ Yes (Supported by CEA, DPS, OMB, Owen/NSC, Pettigrew, Agriculture, Commerce, Labor, Treasury.)

_____ No

2. Include international commodity policy in the TPC.

_____ Yes (Supported by CEA, OMB, Owen/NSC, Pettigrew, Agriculture, Commerce, Labor.)

_____ No (Supported by DPS, State, Treasury.)

3. Include energy import policy in the TPC.

_____ Yes (Supported by OMB, Pettigrew, Agriculture, Commerce, Labor, Treasury.)

_____ No (Supported by CEA, DPS, Owen/NSC, Energy, State.)

NOTE: Labor strongly recommends that full representation be assured on other interagency trade policy committees including East-West trade,

international investment and the Eximbank's National Advisory Council and other interagency trade policies not now coordinated by STR. Owen/NSC would include coordination of trade adjustment assistance and all import relief.

IV. Trade Negotiations

Responsibilities for the negotiation of trade agreements are divided among STR (for the MTN, Orderly Marketing Agreements and free world bilateral trade agreements), State (for commodity policy and trade agreements with communist nations, GATT affairs, trade representation with other international organizations, and negotiations on fisheries), and Treasury (for negotiations involved with countervailing duties, antidumping, export credits, and bilateral commissions with the Soviet Union and China). Bilateral trade disputes and East-West negotiations are handled by State, Agriculture, Energy, Treasury, STR or Commerce depending on the issue. The implementation of the new MTN codes will require followup negotiations.

The present division of negotiating responsibilities may make it more difficult to have consistency in our trade relations with other governments, to fully exploit leverage among different negotiations with the same country, and to avoid having other countries play U.S. agencies against one another.

Two options for organizing our trade negotiating responsibilities merit consideration:

Option 1. Maintaining the status quo with STR continuing its present negotiating and coordinating roles (including conducting the forthcoming MTN implementation negotiations).

Pros

- o Present system has worked reasonably well.
- o Would closely associate negotiating and operational responsibilities.

Cons

- o Existing system requires extensive coordination to achieve consistency among negotiations.
- o Would not use to full advantage the potential leverage from negotiations on one subject to another set of negotiations with the same country.

Option 2. Consolidate all trade-related negotiations in Commerce.

Pros

- o Would ensure that U.S. speaks with one voice in trade negotiations.
- o To the extent that operational units were transferred with negotiating responsibility, would ensure that operations are together and that appropriate technical expertise backs up negotiations.
- o Would maximize potential to use one trade instrument against another to gain leverage in negotiations with the same country.
- o Increases consistency in overall trade negotiating positions.

Cons

- o Negotiations might be overly representative of Commerce's constituency.
- o Would cause significant disruption in current working arrangements.
- o Would separate some trade negotiations from non-trade negotiation linkages.
- o Many other factors and policies must be considered and it would still be necessary to have an EOP coordinator.

Decision:

_____ Continue STR's existing negotiating and coordinating roles, including the forthcoming MTN implementation negotiations.
(Supported by CEA, DPS, OMB, Owen/NSC, Agriculture, State, Treasury.)

_____ Consolidate all trade-related negotiations in Commerce.
(Supported by Pettigrew and Commerce.)

TABLE I

SUMMARY OF CONGRESSIONAL TRADE DEPARTMENT PROPOSALS

(Functions Included)

	Roth-Ribicoff (S.377)	Byrd (W.Va.) (S. 891)
Agency	Department of International Trade and Investment	Department of International Trade
Agriculture Department	No change	Foreign Agricultural Service
Commerce	Export promotion, foreign investment, export administration, foreign trade zones, other trade activities (e.g., East-West trade).	International commercial activities of Industry and Trade Administration.
Energy Department	No change	Direct U.S. participation in multi- and bilateral trade negotiations on energy matters.
Export-Import Bank	Include all	Responsibility for minimizing competition in Government-supported export financing.
Overseas Private Investment Corporation	Include all	New Secretary would be OPIC Board Chairman; OPIC's mission would include promoting U.S. trade position.
Special Trade Representative	Include all	Include all
State Department	Commercial attaches; all trade agreement activities, including commodity agreements; and international investment policy; but excluding economic reporting.	Bureau of Economic and Business Affairs, commercial attaches, trade and commodity agreements, fisheries, information on foreign commercial and labor trends.
Treasury Department	International trade and investment; Customs Service; unfair trade and investment competition.	Trade and commodity agreements, Office of Assistant Secretary for International Affairs (except monetary policy, international exchange, and bilateral and multilateral monetary institutions), dumping and countervailing duties, Customs Service.

SUMMARY OF CONGRESSIONAL TRADE DEPARTMENT PROPOSALS
(Functions Included)

Agency	Roth-Ribicoff (S. 377)	Byrd (W.Va.) (S. 891)
International Trade Commission	Section 337 of Tariff Act of 1930 (unfair trade), tariff nomenclature and statistics.	No change
Proposed new mechanisms	None proposed	Deputy Secretary for Trade Negotiations; Director of Long-Range Policy Planning; Assistant Secretaries for agriculture, industry and commerce, energy, law enforcement and investiga- tions.

AGENCY/STAFF
COMMENTS

DEPUTY SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

EXECUTIVE OFFICE OF THE PRESIDENT

WASHINGTON, D.C. 20506

202-395-5114

May 4, 1979

MEMORANDUM

TO : John P. White
FROM : Alan Wm. Wolff *AW*
SUBJECT: Trade Reorganization

I am writing to you with a full sense of the responsibility that STR shares for the failure to communicate adequately to the President reasonable options for reorganization of the trade field within the government. The reasons for our failing to contribute adequately to this process are several. They include my absence for official travel abroad in the last two weeks as well as the absence abroad of others at STR who could have contributed. Also involved is the fact that one of the central instruments of economic policy coordination in the government, the Economic Policy Committee, apparently deliberated the subject of trade reorganization without inviting STR to participate. (STR is not a member of this group.)

We received the paper for comment just shortly after comments were due, and are working now on a more detailed response.

I would only mention one comment on the paper by way of illustration: In one page and a half (beginning on page 22), the President is provided with an option to abolish STR, without this fact being mentioned. A few superficial pros and cons are listed. It strikes me as odd that a decision of this kind be treated in so cursory a manner.

cc: Jim McIntyre

My strong recommendation, as I mentioned earlier, is that the memorandum be withdrawn and reconsidered.

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON
20506

April 27, 1979

MEMORANDUM TO RICK HUTCHESON

FROM: Ambassador Robert S. Strauss 
SUBJECT: McIntyre Memo re Reorganizing the Trade
Functions of the Government ID 791637

I know that a great deal of work and a great deal of consultation have gone into the reorganization paper as it now stands; but I do not believe that the options laid out go far enough to meet the strong interest of Senators Ribicoff, Roth, Byrd and others and might only complicate our dealings over the MTN package. It seems to me that our best approach is to incorporate in the MTN enabling legislation a proviso that the President will report a reorganization plan to the Congress within 60 days of the approval of the package.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

May 3, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze *CLS 4/25/79*

SUBJECT: McIntyre memo re: Reorganizing the Trade
Functions of the Government

I fully concur with the general tone of this memo that whereas trade reorganization may reduce some of our marginal trade problems, it will not eliminate those fundamental problems that exist with our trade performance or policy.

From my point of view, the most serious problem which crops up in our trade policy is the low weight often attached to consumer interests (e.g., inflation) as opposed to producer interests. I am doubtful that this problem will be overcome through trade reorganization. It must be handled by agencies like CEA, OMB, and Treasury weighing in heavily, on a case by case basis, in the interests of consumers.

My specific recommendations on the McIntyre memo are as follows: I am in favor of expanding the Commerce Department's export promotion responsibilities. I recommend that you therefore move both Eximbank and the commercial attaches into the Commerce Department. On this latter issue, at the very least, the attaches' responsiveness to the Commerce Department should be increased.

On import relief, I recommend the status quo with one exception. I recommend that you avoid the likely protectionist effect of moving the CVD and antidumping functions to Commerce. I therefore favor retaining them in Treasury, and establishing an interagency consultation process over their administration. I also recommend that you do not move the Section 337 cases and STR's import-related operations functions into Commerce.

With respect to policy coordination, I recommend that you do give the TPC coordinative responsibilities over the Treasury's antidumping and countervailing duty functions

and our international commodity policy, but not international energy policy, which is quite beyond the normal functions of the agencies represented.

And I recommend that you continue STR's present negotiation and coordinating roles, and do not place these functions in the Commerce Department.

The substance of my recommendations is to strengthen Commerce's export promotion role but not give it expanded authority over import policy, since I believe this would ultimately generate more protectionism.

THE WHITE HOUSE

WASHINGTON

INFORMATION

April 28, 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: HENRY OWEN *HO*

SUBJECT: Trade Organization

Improvement of the government's trade policy and trade administration machinery can enhance both the prospects for passage of the MTN package and our ability to take full advantage of the MTN. I recommend the following steps to help us accomplish those objectives:

1. Process Improvements. The Commerce Department should be given the policy lead for export financing, a change that can be accomplished by giving the Secretary of Commerce direct responsibility for Eximbank's policy guidance. Commerce should work closely with State in the selection, training, guidance, and evaluation of State's commercial attaches. The government-wide resources devoted to such important post-MTN tasks as anti-dumping and countervailing duty cases, export development, and sectoral analyses of US industry should be increased.
2. Reorganization. Commerce should be made responsible for the monitoring and implementation of the MTN, including functions related to imports and exports. Commerce should also expand its export promotion and development activities to take full advantage of the MTN.
3. Coordination. The coordinating role of the STR should be strengthened. STR should chair a Trade Policy Committee with coordination responsibilities for such key trade policy issues as anti-dumping and countervailing duty functions, international commodity policy, trade adjustment assistance, and unfair trade practices. Basic responsibility for these functions should remain with the individual lead agencies now seized with them.

Adoption of these changes would substantially strengthen the government's trade policy, administration, and development capability. I have not tried to assess the political reaction to these changes, since others will advise you on such matters.

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

May 4, 1979

Duck C.

M

MEMORANDUM FOR: JOHN WHITE
FROM: HENRY OWEN *150*
SUBJECT: Trade Organization

I am sensitive to the political factors that the President much weigh in making his decisions on trade organization. However, I am not persuaded that, in order to gain supporters for the MTN package, we must take organizational steps that would not make sensible contributions to an effective, open U.S. trade policy.

I stand by the comments on trade organization that I made in my memo to the President of April 28th (Tab A). The following are my comments on the specific options in the memo that was circulated yesterday.

Eximbank: Neither Option 1 nor Option 2 would be satisfactory means of strengthening Commerce's policy role while safeguarding the independence of Exim. I therefore support Option 3, clarified to provide for Commerce to chair NAC meetings dealing with Exim.

Commercial Officers: I support Option 2.

Post-MTN monitoring and implementation: I support placing all MTN monitoring and implementation responsibilities in Commerce.

Import Relief: With the exception of Section 337 authority, which should be moved to either a strengthened STR or an enhanced Commerce Department, I recommend no change in the functions now assigned to Treasury and STR. All import relief policies should be coordinated by the Trade Policy Committee (TPC).

Trade policy direction. Except for energy trade, which is already well coordinated through White House and inter-agency mechanisms, I support the coordination of import relief matters, commodity policy, and trade adjustment assistance by the TPC, chaired by STR. STR might be renamed to dramatize its enhanced functions.

THE WHITE HOUSE

WASHINGTON

May 4, 1979

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: THE PRESIDENT
FROM: DICK PETTIGREW *Dick*
SUBJECT: McIntyre Memo re Reorganizing the
Trade Functions of the Government

Precisely because the Department of Commerce is regarded as a weak department, it should be given the lead trade mission and the clout to carry out the implementation of MTN in both its export and import aspects, to conduct trade negotiations, and the designation as the accountable agency in trade (except for agricultural exports). To reinforce its clout, it should have the retaliatory functions in import relief now housed in Treasury. I am sensitive to the fact that such a transfer could raise concerns that it could give the Department a potential protectionist tilt. My own concerns about that have been overcome by the knowledge that big business in this country is primarily, if not overwhelmingly, free trade in orientation and that trade experts at ECAT (Emergency Committee for American Trade, a free trade lobby on behalf of multi-nationals) support this transfer of anti-dumping and counter-vailing duties from Treasury. They are joined by experts at the Chamber of Commerce and NAM. The main trade mission of the Department will be to enhance our exports.

A Secretary of Commerce and Trade would have strengthened clout in international trade negotiations if the Secretary possessed trade retaliatory powers. Further, the Secretary's mission would be facilitated in negotiations if strongly involved in export and import credit functions.

I believe the Eximbank should be moved into the Department of Commerce and Trade, and the Secretary made ex officio, a member and the chairman of the board of directors. Precisely like the Commodity Credit Corporation in Agriculture, the Department should provide administrative services to the Bank, and the Bank should be managed by the board of directors subject to the general supervision and direction of the Secretary of Commerce

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and Trade. The Commodity Credit Corporation is a successful model, and such a transfer is both dramatic and has the potential of the greatest cost savings.

In connection with the commercial attaches at State, regardless of what improvements are attempted, I feel the effort to improve commercial services in State will be largely futile. Many past Presidents have tried to give increased emphasis to the functions of the commercial attaches without success. The reasons for this are well known. Commercial attache service is not the place to be assigned if one is interested in career advancement in the State Department. Since additional significant resources must be amassed to monitor the MTN codes effectively anyway, I feel strongly that the commercial attaches should be moved into the Department of Commerce and Trade and that a Foreign Commercial Service should be established in the Department comparable to the Foreign Agricultural Service in the Department of Agriculture. The latter has an outstanding reputation because it attracts persons who wish to build a career in that area. Having such a Foreign Commercial Service would place us in the position of effective enforcement of the MTN while carrying out the export expansion mission. The Chamber of Commerce and NAM point out that the same people who are assisting American business abroad are the ideal ones to identify code violations in the same countries.

The National Association of Manufacturers urges that you note that, despite your export declaration of last September, (1) no export council has been appointed; (2) no further export program has been developed; and (3) no solution to the problem of developing a replacement of the "disc" has been developed. This has hurt your credibility in the trade export field. These failures to respond to your highly visible initiatives indicate the lack of cooperation among existing agencies and the lack of priority attention given to trade issues.

This is why I disagree with the contention that reorganization of trade affects only matters at the margin. I feel there are serious organizational problems and serious lack of trade focus in the government. The National Association of Manufacturers points out that while two-thirds of our exports are in manufactured goods, the United States ran a \$6 billion dollar global deficit in such exports in 1978 while Germany had a global

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surplus in such exports of \$51 billion and Japan, \$72 billion. This despite the fact that this country's industrial base overall is technologically competitive except in some areas. I recognize there are other major reasons for limitations on U.S. exports, but I am unpersuaded by the contentions that giving high organization priority to trade is not substantively vital or symbolically important at this time. Such a reorganization can "build a foundation" to solve long-term inflation and energy problems as well.

In the EOP, I think there need be only a small coordinating staff independent of Domestic Policy Staff which has the responsibility for insuring that the Energy Department, the Agriculture Department, Commerce, Treasury and other departments cooperate and coordinate in their respective areas with reference to trade policy questions. With Ambassador Strauss going to another assignment, I see no need for an enhanced and enlarged trade negotiation staff housed in the EOP. The existing capacity and MTN "institutional memory" should be moved to Commerce with the other trade functions discussed.

In addition to these substantive reasons, I believe there are two additional reasons for making a comprehensive reorganization proposal in the trade area.

1. Almost all the evidence is that trade reorganization will be widely praised in the press, Congress and the business community, with little downside risk.
2. Your overall reorganization program will suffer significantly if DNR is lost or further diluted. A bold trade reorganization would help replace it. If both were to pass, the effect on your overall reorganization program would be very beneficial.

In summary, I recommend comprehensive trade consolidation in Commerce as follows:

I. Export Promotion

Eximbank Organization Options

Option 1, with administrative services being merged with those of Commerce.

Commercial Representation Options

Option 1, including establishment of a Foreign Commercial Service patterned after the Foreign Agricultural Service.

Post-MTN Monitoring and Implementation

Decision: Yes

II. Import Relief

Antidumping and Countervailing Duty (CVD) Cases

Option 1

Unfair import practice cases (Section 337) International Trade Commission

Transfer to Commerce.

Import-related operational functions of the Office of the Special Trade Representative

Transfer to Commerce.

III. Trade Policy Direction

Decisions: 1. Yes
2. Yes
3. Yes

IV. Trade Negotiations

Consolidate in Commerce, leaving strong coordinating Executive Office unit for consistent department coordination.



RECEIVED

THE SECRETARY OF THE TREASURY

WASHINGTON

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OFFICE OF
MANAGEMENT & BUDGET

May 4, 1979

MEMORANDUM FOR THE HONORABLE JAMES T. MCINTYRE, JR.
DIRECTOR, OFFICE OF MANAGEMENT AND
BUDGET

As I discussed with John White yesterday, the current version of the Trade Reorganization memo remains really inappropriate for forwarding to the President. As we all agreed on Thursday morning, a short five to six page memo is quite sufficient to fairly and efficiently summarize the decisions needed. We simply must spare the President from lengthy memoranda with numerous options on issues on which his principal economic advisors agree.

It would be sufficient to write a memo that following a paragraph's introduction stated up front that it was the unanimous judgement of the President's senior economic advisors that:

- 1) there should not be a new Cabinet department of trade;
- 2) STR should remain in the White House;
- 3) with the exception of agricultural programs, export promotion functions should be further consolidated in the Commerce Department. Specifically, the EPG recommends that Eximbank should be moved into Commerce, that MTN monitoring and implementation responsibilities be placed in Commerce, and that ways be found for Commerce to better co-manage with State the Commercial Officers in U.S. Embassies;

- 4) to facilitate coordination of import enforcement, the mandate of the Trade Policy Committee should be expanded to include coordinating countervailing and anti-dumping duty policy. The detailed implementation of policy in these areas would stay with the current administrative agencies. In order to expedite processing of CVD and anti-dumping cases, the implementing agencies' resources would be reinforced;
- 5) we retain trade negotiation responsibilities where they currently are.

The memo should go on to say that these views are shared throughout the Cabinet with the following exceptions:

- 1) Commerce would like to have transferred to its jurisdiction the administration of CVD and anti-dumping cases, the handling of unfair import practice cases, and the import-related operation functions of STR. (If applicable: STR would like to get these functions for itself in a new "agency" outside the White House modelled on the old British Board of Trade.) This argument is based on the thesis that such reorganization would place the important import relief functions under one roof and in so doing would satisfy congressional pressure for trade reorganization and faster enforcement. Your other economic advisors and Cabinet officers (plus State) unanimously argue against moving these functions to Commerce (or STR) on the basis that their current management is the most effective way to hold protectionism at bay;
- 2) the Export-Import Bank objects to the recommendation to move Ex-Im to Commerce on the basis that this might diminish the advantages of an "anonymous buffer" provided by an independent bank and could imperil the objectivity of Ex-Im's credit decisions. At most Ex-Im would accept the notion that the Secretary of Commerce chair an independent Eximbank. The other agencies support moving Ex-Im to Commerce and appointing the Secretary as chairperson on the basis that this would strengthen our ability to promote exports. This would signal your strong commitment to improving U.S. export performance.

The memo should conclude by giving a brief political assessment and by recommending that the President accept the majority view on the non-disputed issues and agree to discuss the two areas of dispute with the EPG Executive Committee (plus Commerce and STR) at the next weekly meeting.

Mike

W. Michael Blumenthal

cc: Stu Eizenstat
Charlie Schultze

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THE SECRETARY OF STATE
WASHINGTON

May 4, 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: Cyrus Vance CRV

SUBJECT: Comments on OMB Memorandum
on Reorganizing the Trade
Functions of the Government

Commercial Representation Abroad. The OMB memorandum presents two excellent proposals designed to strengthen the export promotion role of the Commerce Department -- giving the Commerce Department lead responsibility for post-MTN monitoring and for formulating Eximbank policy. However, a third proposal -- transferring certain commercial officer positions from State to Commerce -- is seriously misguided. It would not only result in wasteful duplication of effort and unnecessarily larger staffing requirements abroad; it would also undercut the purposes which the trade reorganization is intended to accomplish. This proposal is not actively supported by any agency or department, including Commerce, and I strongly urge you to reject it.

The proposal ignores the fact that, unlike the specialized functions now performed by financial, agricultural, and labor attaches, commercial representation abroad is performed by a much larger group of Foreign Service Officers with much broader responsibilities. While less than 150 officers do exclusively commercial work, another roughly 500 officers combine commercial work with other economic responsibilities. Only one-third of our posts abroad have commercial-only positions; at the other two-thirds, the commercial representation work is done by economic/commercial officers. In addition, in order to make our export promotion efforts more effective, we are working to involve our Ambassadors and other principal officers in posts abroad more actively in commercial work, as our trading partners do.

Under the transfer proposal, the commercial-only positions would be moved to Commerce, but the economic/commercial positions would not (and could not) be transferred. As a result, the commercial function would be artificially split into two personnel systems. At two-thirds of our posts, commercial representation would

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- 2 -

continue to be done by Foreign Service Officers; at the other posts, it would be done by both Commerce employees and Foreign Service Officers.

These parallel personnel systems would create strong pressures for wasteful and duplicative staffing abroad. Moreover, splitting off the commercial-only positions from the Foreign Service could well encourage the view that export promotion is a "Commerce Department issue," just as we are making progress in giving export promotion a higher priority in our overall foreign policy. The key to improving commercial representation abroad is to match the high-level diplomatic efforts of our foreign competitors, rather than to encourage the view that export promotion is a specialized function staffed by another agency.

There are other disadvantages to the transfer proposal. I question, for example, whether commercial work abroad will as readily attract high quality people if they are denied the possibility of promotion to high-level diplomatic positions offered by the Foreign Service. And I am concerned that the artificial separation of the closely-related economic and commercial functions will frustrate the mutually beneficial coordination between the two that is needed to capitalize on new export opportunities provided by the MTN.

The alternative to this unwise transfer is a strong collaborative effort by State and Commerce to increase the effectiveness of commercial attaches and to instruct our diplomatic missions -- Ambassadors as well as attaches -- in their important role in the post-MTN export expansion effort. This alternative responds appropriately to the need to give momentum to our post-MTN follow-up and I urge you to adopt it.

Import Relief. I recommend against moving import relief responsibilities from Treasury, STR and ITC to the Commerce Department. Combining import relief functions in a department perceived as having a special responsibility for U.S. industry could appear to introduce a protectionist bias.

Trade Policy Direction. STR and the Trade Policy Committee (TPC) should continue to perform the central coordination role on all significant trade policy issues. This coordination has been excellent.

However, I do not favor extending the coordination role of the TPC to issues which are not primarily concerned with trade policy. Such marginally trade-related issues include international commodity policy -- which attempts to improve the efficiency of particular commodity markets and is central to the North/South dialogue -- and energy import policy -- which is subject to overriding energy policy objectives that were the reason for establishing the Department of Energy.

Negotiation. I oppose moving trade-related negotiating functions from STR, State and Treasury to Commerce. Many of these functions -- for example, State's negotiation of trade agreements with Communist countries -- serve important policy interests apart from a strict trade focus on expanding exports or restricting imports.

The Case Against Major Organizational Change. As the OMB memorandum recognizes, the present organizational arrangements are not a basic cause of trade problems, and reorganization cannot eliminate the difficult task of accommodating trade policy objectives with other important U.S. policy objectives. I urge you to reject unnecessary, disruptive, and unwise proposals for major organizational change -- creating a new personnel system for commercial officers, moving import relief functions, or transferring negotiating responsibilities -- which will not help and could substantially hurt our efforts to achieve trade policy objectives.

U.S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

May 4, 1979

Trade Reorganization Project

Labor Department Comments on Decision Memorandum

pp 2-3 The last sentence on page two is analytically incorrect, and should read as follows:

Our competitive disadvantages include low productivity growth, outmoded facilities, changing market demands, legal disincentives associated with other domestic or international policies, and export policies less vigorous than those of other countries.

p 13, top of page: Labor is neutral between options 1 and 2 on how to strengthen the Commercial Officer corps.

p 13, bottom of page: The Labor Department supports the second option, deleted from this draft:

2. Keep MTN monitoring in the individual agencies with expertise, but with MTN monitoring policy coordinated by STR

p 18 Labor should be recorded as supporting a "no" decision on the last option: transferring to Commerce STR's import-related functions.

p 21 A fourth option should be added in place of the note at the bottom of page 21, as follows:

4. Assure full representation, including STR and other TPC agencies, on interagency trade policy committees not coordinated by STR (includes East-West trade Board, International Investment Task Force, and NAC).

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

APR 27 1979

MEMORANDUM FOR: JAMES MCINTYRE
Director, OMB

FROM: SECRETARY OF LABOR *Ray Marshall*

SUBJECT: Trade Reorganization

The April 26 draft Presidential decision memorandum on trade reorganization represents a sound foundation for making a choice, but I would recommend two substantive changes to strengthen the decision framework.

The importance of constituency interests is understated, with a resultant bias both in the presentation of options and in their evaluation. The greatest strength of our trade-policy formation in this Administration has been the representation of diverse constituency interests in STR's interagency policy framework. This representation and balancing of viewpoints, backed up by the private sector advisory committees in the Commerce, Agriculture and Labor Departments, has produced results generally acceptable to Congress and the public. Indeed, without this advisory committee input the MTN might never have come to an acceptable conclusion. A further strengthening of this framework should be a major goal of trade reorganization.

Upgrading interagency policy-making and coordination is a related aspect of trade reorganization which needs to be more clearly presented to the President. The treatment of policy coordination options (pp 32-33, with backup material on pp 18-20) should spell out the full range of trade policy concerns where interagency coordination is now absent or inadequate. Options should be presented to have STR coordinate not only antidumping and subsidy, international commodity, and energy import policies, as proposed, but also export controls, East-West trade, trade financing, and especially international investment policies. For those areas the President might choose not to coordinate under

STR's umbrella, we should propose building up presently inadequate interagency mechanisms headed by individual departments; for instance, the East-West Trade Board has not met in over two years, and several of the key trade policy areas are coordinated through interagency mechanisms (for commodity policy, export financing, etc.) which do not include key agencies such as the STR and the Labor Department.

I have enclosed more detailed comments and suggested language for bringing these points into the Presidential decision memorandum.

Enclosure

Trade Reorganization Memo:
Specific DOL Comments

p. 12, Add an additional "con":

"Additional coordination could assure domestic constituencies a fair hearing in post-MTN policies."

p. 13, add an additional "con":

"Would be opposed by organized labor, agriculture, and other interests"

p. 15, modify initial "con":

"May not satisfy . . ." rather than "Unlikely to satisfy"

p. 15, bottom, add in the last line before the "Pros":

"Commerce under STR policy coordination or a new trade agency."

p. 16, modify and add to first "con":

"The ITC's friends in the Congress and the private sector may object to any diminution of its autonomy or authority. If coordination for 337 policy takes place through the STR interagency mechanism, this opposition would be diminished."

p. 17, deletion: the inclusion of the Saudi Arabian joint economic commission is inappropriate here, since it deals only with technical assistance and aid-like projects, not trade.

p. 18, additional "pro":

"Would be supported by the private sector."

p. 19, additional "pro" for item no. 2:

"Would be supported by the private sector."

Labor Department Views on Decision Options

The Labor Department favors option 3A, adding export functions to Commerce, with a full expansion of STR's role in coordinating trade and investment policy.

Within the consolidation of export promotion functions in Commerce, DOL favors (a) building links between Commerce and the commercial attaches, while keeping the commercial attaches in the State Department, and (b) moving the Ex-Im Bank into the Commerce Department.

The Labor Department strongly supports an expansion of STR's interagency policy coordination to include trade policy areas now not coordinated or inadequately coordinated. We favor the three options presented (pp 32-33) for:

- (a) antidumping and countervailing duty policy,
- (b) international commodity policy, and
- (c) energy import policy.

In addition, we urge that additional areas now outside STR's umbrella be included for the President's decision, including:

- (d) East-West trade policy
- (e) investment policy (with increasingly direct trade implications -- as in the Chrysmex case)
- (f) export control policy
- (g) export financing policy and international negotiations

Finally, in this same section 4, Policy Coordination, we urge the inclusion of a final option:

- (h) full interagency representation in any interagency trade policy committees not coordinated by STR, including the National Advisory Committee for International Financial and Monetary policy and any of the above-listed functions not brought under STR's chairmanship.



UNITED STATES DEPARTMENT OF COMMERCE
Office of the Secretary
Washington, D.C. 20230

April 27, 1979

MEMORANDUM

TO: Richard G. Hutcheson III

FROM: Homer E. Moyer, Jr. *HME*
Counsellor to the Secretary

SUBJECT: McIntyre Memo Reorganizing the Trade Functions
of the Government

Apart from specific editorial comments already furnished to Harrison Wellford's staff, we have the following three comments on the trade reorganization memorandum.

1. As indicated in the attached statement of Commerce Department positions on the various options presented, Commerce favors moving both the Exim Bank and the State Department's commercial attaches into the Commerce Department. On these two points, however, our preference is a narrow one, and alternative arrangements that would effectively increase the Department's policy guidelines over the Bank and operational control over the attaches would also be satisfactory.
2. More importantly, the memo generally understates the potential linkages between export functions and import functions -- Options 3A and 3B. First, trade discussions with a given country typically involve both. For example, on the export side, the United States is now pressuring Japan to lower its import restrictions; at the same time, on the import side we are intentionally invoking "orderly marketing" practices with respect to Japanese products. Another example: in my recent visits to both Tunisia and Morocco, the most important trade issues included U.S. action on the Generalized System of Preferences (GSP), an import question, and the availability of Exim financing, an export issue. There are obvious benefits in these and numerous other examples in having the same department handle both import and export questions.

In addition, most import and export issues are closely tied to industry sector analysis capability. Increasingly, trade issues are industry issues. Industry-by-industry capability is as important in responding to GSP petitions and investigating claims of import injury (import functions) as it is to targeting export financing and providing overseas market information (export functions). Efficiencies can be achieved in having all such functions draw on sector analysis capabilities of this department.

3. The recurrent assertion that Commerce would handle new trade responsibilities with a protectionist bias has no basis. The facts are exactly the opposite. Commerce's record on escape clause cases, tariffs, and GSP is a strong free trade record, stronger than that of many other departments. Even if one were to accept the outmoded notion that business is the Department's "constituency," that "constituency" is itself divided on issues of trade. For example, the retail industry, which accounts for one of every six jobs in business, strongly favors free trade policies. It is the Commerce Department that administers those programs that are the principal alternatives to protectionist border relief -- trade adjustment assistance for communities and firms and export development.



Department of Energy
Washington, D.C. 20585

April 27, 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM SCHLESINGER 

SUBJECT: Reorganizing the Trade Functions
of the Government

I strongly concur with Jim McIntyre's observation that trade reorganization will not resolve our trade problems, which are rooted in the contradictory goals of various domestic and international policies. Secondly, I also share his conviction that we must take action to reverse our deteriorating trade position.

In reviewing the options presented, I am particularly concerned that the responsibilities of the Trade Policy Committee (TPC) not be expanded to include energy import policy. While I recognize the significant role played by energy in our trade balance, I do not believe that imposing yet another coordinative mechanism would advance the national interest. Our energy and trade policy share the common objective of reducing our energy imports. There is no demonstrable need for adding energy import policy to the TPC's jurisdiction.

The State Department concurs in this view.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

MAY 4 1979

TO: Richard Hutcheson
Staff Secretary to the President
The White House

FROM: ~~Acting~~ *Elmer R. Klump*
Deputy Under Secretary, I&CP

SUBJECT: Reorganizing the Trade Functions of the Government

We appreciate having the opportunity to review the memorandum on the above subject. Our positions on the options in the four areas dealt with follow:

I. Export Promotion

We understand that Agriculture's export promotion programs are not to be transferred from the Department of Agriculture. This should also be the case for Post-MTN Monitoring and Implementation (page 13). The Department is the only agency with the technical competence and trade contacts to monitor and evaluate trade policies and actions of other countries in relation to agricultural products. Therefore the Department must continue to exercise its traditional initiative in this area, subject, however, to the normal constraints of interagency coordination in the national interest. The Department does not support all MTN monitoring and implementation being placed in the Department of Commerce.

II. Import Relief

The Department of Agriculture does not support the transfer to Commerce of import-related operational functions (page 18). Most import-related operational functions--certainly the Multi-Fiber Arrangement, the Generalized System of Preferences and the several complaint provisions of the Trade Act--are of vital interest to several agencies, especially Agriculture, Labor, and State, as well as Commerce. These programs must be coordinated by an independent arbiter, such as the Office of the Special Representative for Trade Negotiations, if they are to be successful.

Moreover, a number of operational functions are unique to the Department of Agriculture because of their relationship to farm income support objectives (Section 22 import quota licensing, import fees on sugar, meat imports, and the proposed monitoring of cheese import prices and import levels for highly perishable commodities).

III. Trade Policy Direction

The Department of Agriculture supports including in Trade Policy Committee responsibilities policy issues dealing with antidumping, countervailing duty, international commodities, and energy imports (page 31).

Antidumping and countervailing duty policy are closely related to other forms of import relief where responsibility is more broadly shared. Moreover, the Department of Agriculture can more effectively contribute its expertise to resolution of issues in these areas if they are handled through the TPC.

Agencies with a unique expertise may be expected to take the lead in international commodity policy; the Department, for example, in the case of wheat, sugar, dairy products, etc. However, a consistent commodity policy across-the-board is required, especially in responding to the interests of developing countries. Only a senior interagency group can achieve this, and it should be centered in the Trade Policy Committee.

Energy policy will have a vital impact on the ability of American farmers to continue to supply increasing quantities of food and fiber to both U.S. and foreign consumers. All interested agencies need to participate directly in decisions in this area.

IV. Trade Negotiations

The Department of Agriculture supports continuing STR's negotiating and coordinating roles. The Department of Commerce does not have the trade and producer contacts nor the technical expertise to represent agricultural interests, as well as other interests, in trade negotiations. Trade negotiations involving agriculture must take careful account of both domestic programs and export promotional activities which are carried out by the Department of Agriculture. Negotiations must also take into account other interests and policies. This can be done best by an independent agency such as STR.

We recommend that Exhibit 1 of the memorandum be deleted because it contains a number of errors regarding the Department of Agriculture's budget and personnel for trade functions.

The Department's budget for export promotion is \$21.8 million and not \$35.8 million as shown in Exhibit 1. Also, the 365 personnel positions is a figure that cannot be identified; the entire number of positions in the Foreign Agricultural Service is about 738. Similar errors also exist in the import relief figures. The Foreign Agricultural Service does not have 434 positions to administer import controls. This is done by about 10 persons.

THE WHITE HOUSE

WASHINGTON

May 11, 1979

*Note - references
to options in this
memo to not
be beyond of
final OMB
summary
memo*

MEMORANDUM FOR THE PRESIDENT

FROM: JACK WATSON *Jack*

SUBJECT: Proposed Reorganization of Trade Functions

There is no question in my mind that reorganization and consolidation of the government's trade functions would be beneficial. Currently, there is a widespread (and largely justifiable) belief within the business community and among the governors that trade activities within the Federal government are unfocused, uncoordinated and unnecessarily bureaucratic. The question in my mind is not whether to reorganize, but how much.

I agree that we should not establish a new free-standing trade department. I recommend instead that we build on the Commerce Department structure that is already in place and give Commerce the tools it needs to become more responsive and effective. The argument frequently made against building on Commerce is that it is a fragmented and weak Department. The answer to that charge is to focus and reinforce the Department's role and make it an effective agency. We have already taken significant steps to do that with respect to the Department's domestic economic development role; it makes sense to do the same thing with respect to an international trade mission.

I have approached each of the individual issues concerning what should be consolidated into Commerce and what should be left out with a rebuttable presumption in favor of consolidation.

Ex-Im Bank

I recommend Option 2 in the OMB memorandum placing the Ex-Im Bank in the Department of Commerce and keeping a Presidentially appointed board. The Secretary would serve as Chairperson with the President of the Ex-Im Bank chairing in the Secretary's absence.

This approach would retain the necessary level of Bank independence, but would integrate the Bank's functions into the overall management of trade policy under the Secretary.

Commercial Representation

I recommend Option 2 which would keep the Commercial Officers in the Department of State. In this case I think the rebuttable presumption in favor of consolidation has been overcome. It would be a mistake to break-up the "country-team" operating under the ambassador. For these purposes, commercial representation is intimately tied to the economic, agricultural and political staff capability within each embassy.

We should require a form of "functional management" which ties the activities of the commercial representatives to the Commerce Department for purposes of carrying out overall trade policy. The Department of Defense has experimented successfully with this kind of "functional management," and I think the concept could be usefully applied in this situation.

Post MTN Monitoring and Implementation

I concur in the recommendation to place this responsibility in the Department of Commerce.

Anti-Dumping and Countervailing Duty Cases

I recommend Option 1 which transfers this responsibility to the Department of Commerce. This is a case where the bureaucratic complexity appears to slow enforcement proceedings. There will be a positive incentive in Commerce to speed-up and improve the enforcement process.

Unfair Import Practice Cases (Section 337) International Trade Commission

I concur in the recommendation to bring the ITC's Section 337 authority into the Department of Commerce, under coordination by the Trade Policy Committee.

STR Operational Responsibilities

STR should continue to act as the EOP mechanism for insuring interagency coordination of trade policy. Its operational functions, however, should be transferred to Commerce consistent with the reorganization and consolidation philosophy being recommended.

Trade Policy Committee

I recommend that each of the policy areas (Anti-dumping/CVD, Commodity Policy, and Energy Trade Policy) be included in the Trade Policy Committee. This is the vehicle that STR chairs which provides interagency coordination in the trade policy area.

The organizational transfers recommended above provide a necessary level of consolidation in trade policy management. This proposal will provide the concomitant level of coordination across the twelve (12) agencies involved in setting and implementing trade policy.

Trade Negotiations

I recommend that trade negotiations remain the primary continuing responsibility of STR. The decision principle that ought to govern, in my judgment, is that consolidation in Commerce is for the purpose of focusing and unifying the execution/administration of existing trade policies and authorities, and that EOP lead (via STR) is for interagency coordination and negotiations that go beyond extant policy.

2:30 PM

OFFICE OF THE SPECIAL REPRESENTATIVE
FOR TRADE NEGOTIATIONS

EXECUTIVE OFFICE OF THE PRESIDENT

WASHINGTON

20506

May 18, 1979

MEMORANDUM FOR THE PRESIDENT

FROM : Robert S. Strauss 
SUBJECT: Trade Reorganization

This memorandum is the longest I have written to you - I think it deserves reading. If I was staying at STR I probably wouldn't write it.

The U.S. Government is at a crossroads in the foreign trade field and the decisions you make on trade legislation and reorganization (including budget decisions) in the coming months will substantially shape this nation's ability to manage these highly sensitive issues for the next several years. A series of crucial legislative actions lie ahead in consideration of the MTN trade agreements, the export control laws, and the opening up of trade relations with China and Russia. The issue of trade reorganization cuts across all of these areas, but is of particular and immediate importance for the MTN package.

OMB has reported to you the recommendations of agencies and your advisers regarding a series of changes in trade organization responsibilities and I would like to comment on these recommendations. One general observation that I would make is that the OMB memo does not offer you an alternative that will solve the political problem we now face and will face in 1980. We need to be seen to be adopting an aggressive trade posture. Burying a few extra units in the Commerce Department doesn't meet this political need. Political rhetoric all across America condemning "weak and timid" trade and export policies of "the Government" is very appealing, particularly when tied to anti-Japanese posture. If we can develop a bit of a bold, aggressive reorganization plan it would have many pluses--substantive and political.

Electrostatic Copy Made
for Preservation Purposes

(1) There Should Not Be an Additional Cabinet Department for Trade

While OMB reports that no agency favors a new Department it does not directly address the reasons. Since a new Department is the focus of almost all the discussion in the Congress and the business community, I think the issue is too important to pass over.

It seems to me there are some persuasive reasons for a new Department, or, at least a new trade agency:

- The importance of trade to the nation's economy has doubled in the last decade and will continue to increase leading to even greater pressures on and sensitivities about government activities that affect trade.

- There is serious criticism about the way we now handle our trade business, by the Congress, the private sector and foreign governments and grave doubts that we are willing to look after our trade interests. Much of this criticism is based on the perception that trade is of secondary importance to most agencies with significant trade responsibilities.

- We are on the verge of passing new trade laws domestically and signing new trade agreements internationally which place major new responsibilities on the Government and raise expectations that we will be able to deal more effectively with trade problems than we have in the past.

- Our relationships with other governments on foreign trade matters are becoming extremely complex and sophisticated requiring a higher degree of coordination, greater expertise, and longer term perspectives and planning, (e.g. Japan, Communist Countries) than we are organized to handle, except on an ad hoc basis. Most other countries handle trade issues on a centralized basis so we are at a disadvantage in our dealings with them.

- Government policy in many areas (e.g. antitrust, tax, energy) is developing in directions which may have significant trade implications, but no existing agency with a primary trade perspective has the capability to assure these implications are adequately assessed and considered.

- Proposing a new trade agency would effectively defuse the strong pressures for reorganization in the Congress and the business community which would increase our chances to move ahead on the critical trade programs we need this year.

The other side of this issue also has a strong case:

- A new trade department or agency by itself won't solve our trade deficits or other trade problems and may in fact create unrealistic expectations.

- Another new Department, on top of Energy and Education, may raise questions about your general commitments on government reorganization.

- A new trade Department or agency may give trade too much visibility and attention, in relation to foreign policy, and other important policy priorities.

Frankly, I am not surprised that in light of the good arguments on both sides of this issue that agency positions are so imbalanced against the idea because bureaucracies generally favor the status quo. I think a new Department or agency makes a lot of sense and that you ought to consider it seriously whatever the vote by the agencies is.

(2) STR Should Remain in the Executive Office, at Least to Coordinate Policy

I don't disagree with this conclusion but I think the real issue here is what STR should do now the MTN is over and whether the Executive Office is the best place to locate those responsibilities. After the last trade negotiation, STR virtually went into hibernation for a decade and that will probably happen again. For the STR to be a viable Executive Office agency it must have clear cut policy direction and negotiating responsibilities of a substantial nature, a strong leader (who can only be attracted to the job if it is substantial) close to the President, and adequate resources to carry out its role here and abroad. It is not at all clear that the recommendations in the OMB paper are consistent with the first of these conditions. The MTN negotiations have been the major program of STR for several years and especially for the last two years. Since the negotiations are concluded and it is recommended that Commerce handle MTN monitoring and implementation, (including, oddly enough, agricultural issues), it is unlikely that the residual role of STR would warrant continuation of its existing status. Frankly, the only reasons STR has been strong in your Administration is that you have permitted, and even encouraged me to be strong - and I had resources to call on around town.

(3) Nonagricultural Export Promotion Functions Should Be Strengthened and Moved to Commerce

It is not at all clear that the addition of Export-Import Bank or foreign commercial officers to Commerce will have any positive effect in the near term. The Bank's activities are generally strongly supported by its customers and a move to Commerce might even cause them to react negatively. If this is the only significant organizational move you make, it may cause problems with one satisfied constituency (i.e. exporters who use the Bank) and raise unrealistic expectations about the results. In the context of broader organizational change, however, this kind of consolidation might be all right - but I have my doubts.

The foreign commercial service can undoubtedly become more effective and a move to Commerce might help but it will take a long time for the results to become evident. Whether significant or not, it certainly would be popular on the Hill and with the business community.

(4) Post-MTN Monitoring and Implementation Functions Should Be Placed in Commerce

This is a very important issue. What we have negotiated in the MTN won't be worth much if we don't aggressively monitor and implement the agreements. The Congress and the private sector are particularly concerned about how we will implement the MTN. I think we need to do some more planning in this area before basic assignments of responsibilities are made. I think that there are three very significant problems with giving the lead implementation responsibility to Commerce. First, there are sure to be problems with the labor and agricultural communities who do not regard Commerce as representing their interests because of its close association with the business. Second, Commerce's track record as a Department doesn't give the Congress or the private sector much confidence it will get the job done right. Third, it probably precludes a viable STR operation.

There is no question that Commerce should play a large role in making the MTN a plus for the business community and that the addition of foreign commercial officers to Commerce will work toward that end. However, STR or a new trade agency must lead and coordinate implementation efforts with respect to business, labor, and agriculture if all of those interests are to be adequately taken into account in considering broader national interests.

(5) The Mandate of the Trade Policy Committee Should Be Expanded

I think it is less important that the mandate of the Trade Policy Committee (TPC) be expanded than that should be interagency coordination in a reasonably consistent manner (i.e. same agencies, similar processes) for all important trade policy decisions.

Specifically we need broader and more active interagency participation in all three of the issues mentioned by OMB (e.g. countervail/dumping, commodities, and energy) as well as export controls, East-West trade, export financing, and trade in services (e.g. transportation). Putting these under the TPC would not only assume interagency coordination but also would provide for an independent evaluation of policy options outside the agency with primary responsibility.

The key question is whether line responsibilities should be pulled together in one agency. This is not addressed directly in the OMB paper. It makes a substantial difference which Department has the ultimate responsibility for a particular decision. For example, even with the same amount of interagency coordination, the Commerce Department would be more likely to order restrictions on exports of cattlehides (sought by the business community) than the Agriculture Department (because of strong opposition by cattlemen). These subtle differences applied to hundreds of individual trade decisions effectively shape our trade policies. Much of the criticism that U.S. trade policy is uncoordinated and inconsistent stems from the dispersion among a dozen agencies of final authority for important trade decisions. Interagency coordination can help but won't solve this problem.

I believe there are two policy areas in the OMB paper where the consensus recommendation on final decision authority should be reconsidered--import remedies and MTN implementation. In addition I think you ought to take a hard look at East-West trade, which is not mentioned, because of the confusion in that area as to who is responsible.

With respect to import remedies, in my view we have not presented you with the central issue, which is whether we can better manage pressures for import restrictions in a central unit or dispersed in several agencies (as they are today). In my view the present organizational situation is

potentially quite dangerous and has already created serious problems in some areas (e.g. color TVs). Bringing together the various import programs in one unit should reduce the risk that those who seek protection will "shop around" for the most sympathetic agency or use a "shotgun" approach which could lead to two or more restrictions on imports simultaneously. It will also give the agency responsible flexibility to channel problems into the most appropriate relief mechanism, producing much more timely, limited, and reasonable actions. I agree with the consensus that Commerce is not the right place, principally because of its constituency interests. My first choice would be Treasury but that will not sell to the Congress (one of the main things the Congress seeks is to get Treasury out of this business). My second choice would be STR or a new trade agency, which would have broad trade responsibilities that would enable it to avoid tipping toward too protectionist policies.

I mentioned MTN implementation earlier and here I would conclude that STR or a new trade agency should be assigned lead responsibility with strong support from Commerce and Agriculture.

With respect to East-West trade, I would suggest that this area is far too important to be managed on an ad hoc basis with three agencies (State, Treasury, and Commerce) handling different aspects of the work, none of whom are responsible for trade relations with the rest of the world.

(6) Trade Negotiation Responsibilities Should Remain With STR

This recommendation assumes that STR handles all trade negotiations which is not true. Now that the MTN is over the existing STR mandate for negotiation will leave little of consequence. Under that mandate, STR will not negotiate East-West trade, commodity agreements, trade financing, export controls, trade in services, or resolution of anti-dumping and countervailing duty problems. It will no longer have an office in Geneva to represent the United States in the GATT, which is responsible for all MTN implementation internationally. What is left will not provide a sufficient portfolio to enable you to attract strong leadership to the STR job. By adding the negotiating responsibilities mentioned above to STR, this problem could be prevented.

Conclusion

I find it very difficult to "check the boxes" in the OMB paper given more fundamental problems with the way those boxes are organized and presented. I think a new trade agency deserves your serious consideration despite the unanimous advice you received to the contrary. I would support consolidating in Commerce the industrial export promotion activities, in the context of broader reorganization. With respect to MTN implementation, I would not rush to make Commerce the lead agency on implementation and would defer any further decisions at this time. I would recommend you take a closer look at import remedies and East-West trade. Finally, the question of the future of STR needs to be addressed directly in light of the minimum conditions that must be met to make it a viable organization.

In sum, more work needs to be done on these reorganization issues if we are going to manage them in a way that defuses the pressures that are now building up.

The OMB memo is excellent in describing the Hill pressures so I will not dwell on them here. I would conclude by saying that none of us - especially me - have given OMB sufficient support on developing a program. I'll make every effort to assure that our people - thin as we are - do better if you want continued examination of this subject.

DATE: 21 JUN 79

FOR ACTION: SECRETARY VANCE

SECRETARY BLUMENTHAL

SECRETARY MARSHALL

SECRETARY BERGLAND

SECRETARY KREPS *attached*

ADMINISTRATOR MOORE

STU EIZENSTAT

+ ZBIG BRZEZINSKI

INFO ONLY: THE VICE PRESIDENT

JACK WATSON

ANNE WEXLER

Peterson - attached

SUBJECT: MCINTYRE MEMO RE REVISED TRADE REORGANIZATION

IMMEDIATE TURNAROUND

+++++

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: +

+++++

ACTION REQUESTED: YOUR COMMENTS

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

PLEASE NOTE OTHER COMMENTS BELOW:

MEMORANDUM
OF CALL

TO:

Bill

YOU WERE CALLED BY— YOU WERE VISITED BY—

Dan Tate

OF (Organization)

PLEASE CALL → PHONE NO. _____ FTS
CODE/EXT. _____

WILL CALL AGAIN IS WAITING TO SEE YOU

RETURNED YOUR CALL WISHES AN APPOINTMENT

MESSAGE

Trade Regy: Concur
w/ Strauss &
McIntyre

RECEIVED BY

DATE

TIME

63-109

STANDARD FORM 63 (Rev. 8-76)
Prescribed by GSA
FPMR (41 CFR) 101-11.6

2744
Supplement

June 21, 1979

MEMORANDUM FOR THE PRESIDENT

SUBJECT: TRADE REORGANIZATION

BACKGROUND

Function follows form. The organization of our trade policy apparatus will shape that policy for years to come.

In broad outline, OMB recommends that you: (1) concentrate all operational trade responsibilities in one agency--the Commerce Department; and (2) centralize all trade policy and negotiating authority within the Office of the Special Trade Representative. The first recommendation invites two criticisms:

- The proposal shifts responsibility for administering all import relief mechanisms into one agency. In the best of circumstances that agency would come under a protectionist siege. But the OMB proposal places all administrative responsibility in an agency--Commerce--with a proven inability to resist protectionist forces. This shift in administrative responsibility foreordains a slide into protectionism thereby building an inflationary bias into our trade policy.
- We must make a determined effort to increase our exports, both by overcoming inertia in the private sector and by removing disincentives created by government. Otherwise we will be forced to rely on tight money, slow growth and unemployment to safeguard the dollar. To avoid this dilemma, we need a fresh and energetic approach to our export promotion efforts. We cannot rely on the Commerce Department which has long employed the largest trade bureaucracy in Washington with the least enviable track record. Shifting additional export responsibilities--such as the highly regarded Export-Import Bank--to the Commerce Department will be seen as building on weakness, not strength.

In light of these criticisms, we suggest two quite different approaches. Our preferred approach, Option 1, would not disturb the administration of import relief functions. Rather, trade reorganization energies would be channeled where they are most needed--into a lively new organization designed to energize our export promotion efforts.

Our fallback approach, Option 2, is offered in the event you believe that the political case for reorganizing import relief functions has now become overwhelming. In that event, the trade interests of the nation would best be served by concentrating import relief functions in a non-constituent agency, reporting to the Special Trade Representative who, with an extremely small staff, would continue to be located in the Executive Office and would remain responsive to a senior policy board composed of Cabinet members.

The attached charts illustrate Options 1 and 2. Both options involve little or no net expansion of government personnel; in both cases the major components are drawn from existing staff.

OPTION 1

U.S. Export Corporation

To provide for more effective export promotion, a new U.S. Export Corporation building on the existing Eximbank would be established outside the Executive Office. It would have two arms: a U.S. Export Service responsible for export promotion activities and the Eximbank responsible for official export financing. The senior executive of both arms would be the President of the U.S. Export Corporation. The U.S. Export Service would have a mixed government/private sector board of directors. The Eximbank Board would remain as it is now constituted. The corporation would receive policy guidance from and report to you through the Trade Policy Committee which would continue to be chaired by your Special Trade Representative.

U.S. Export Service

The U.S. Export Service would be responsible for the full range of export promotion activities: commercial centers overseas, trade fairs, market research, trade missions and business services. Its overseas personnel would assume the purely commercial functions and services now provided by our embassies. The staff would be

drawn from the private sector and from the State Department commercial attaches (about 100). These staffs would operate out of business-oriented offices separate from the distractions of embassy life but under the authority of the ambassadors.

The Export Service would use the existing Commerce field offices to reach businesses across the country.

The necessary Washington and field staff would be transferred from Commerce to the Export Corporation.

An Office of Special Projects would be established in the Export Service's headquarters to handle large overseas projects that involve purchases of a broad spectrum of goods and services and require penetration through layers of government regulation here and abroad. Export project managers would be appointed to assist U.S. firms in competing for these projects.

Eximbank

No change is proposed in Eximbank's operating procedures, or the composition of its Board of Directors. The Eximbank would continue to respond to the broad policy guidance of an interagency export finance group chaired by the Treasury.

Administration of Import Relief

Under Option 1, the existing administration of import relief cases would not be disturbed. The present pattern of administrative responsibility means that there is no single agency that can easily be co-opted by those seeking relief. Thus, STR would continue to coordinate policy advice to the President on escape clause cases, and handle the investigation of unfair trade practice cases. Treasury would continue to administer national security cases and countervailing and antidumping duty cases. These last-named cases are the most contentious aspect of the whole reorganization debate.

Much of the frustration directed at Treasury's handling of countervailing and antidumping cases reflects discontent, first, that Treasury has not always sided with those seeking relief, and second, that administrative procedures are too slow.

If the antidumping and countervailing duty laws are fairly administered, some petitioners will always go away empty-handed. But Treasury has taken steps to speed up the administrative process: significantly more personnel are now budgeted to handle the case load. Moreover, the new law imposes considerably shortened time deadlines. Thus, in our judgment, discontent with Treasury's performance will soon decline.

Meanwhile, a strong argument can be made for leaving the administration of these cases in Treasury. More than 80 percent of the workload is handled by the Customs Service, with policy direction and final decisions supplied by a small corps of Treasury officials. The Customs officers assigned to these cases also handle regular Customs work. Significant management inefficiencies would arise if transfer of the Customs officers caused them to concentrate solely on the uneven flow of countervailing and antidumping cases. On the other hand, if policy guidance were shifted out of Treasury, and if the Customs officers were not also transferred, other management inefficiencies would arise from the problems of coordination between two different agencies.

Trade Negotiations

Under all options, including those offered by OMB, the conduct of trade negotiations would remain under the STR. Recent successful completion of the MTN indicates that policy formulation for and conduct of trade negotiations is highly satisfactory under the present system.

OPTION 2

We recommend Option 2 if you believe that a drastic reorganization of our trade apparatus is required. The approach we offer would consist of both a U.S. Trade Policy Administration to formulate, negotiate and administer trade policy and the U.S. Export Corporation outlined in Option 1. These two organizations would be located outside the Executive Office and would report to the STR through two Deputy STRs. Both organizations would be staffed by existing personnel drawn from STR, State, Treasury, and Commerce.

U.S. Trade Policy Administration

A U.S. Trade Policy Administration (USTPA) would be established outside the Executive Office. It would be headed by an Administrator who would be a Deputy STR with ambassadorial rank. The USTPA would assume all current operational functions of the Office of the Special Trade Representative, plus responsibility for implementing U.S. trade agreements and for administering the anti-dumping and countervailing duty statutes.

Our preferred approach would leave antidumping and countervailing duty cases in the Treasury. But if political considerations dictate that this administration must be shifted, we think it is vital that the administration not be shifted to a constituency agency--the Commerce Department. Rather, these cases should be handled by an independent administration, free of protectionist bias, reporting to the STR in the Executive Office and to a broad-based Trade Policy Board (TPB).

The Trade Policy Administrator's responsibilities would also include: interagency coordination; trade and textile negotiations; liaison with private sector advisory groups; monitoring compliance and enforcement of U.S. rights under MTN codes; implementing Sections 201 (escape clause) and 301 and 337 (unfair trade practices) of the Trade Act of 1974; and representing the United States in meetings of the GATT.

The staff would include the present STR plus existing staff drawn from Treasury to administer antidumping and countervailing duty statutes.

U.S. Export Corporation

As in Option 1, this option also contemplates a new U.S. Export Corporation, built around the existing Eximbank. The only difference is that, in Option 2, the President of the U.S. Export Corporation would be a Deputy STR with ambassadorial rank, reporting to the STR.

FUNCTIONS NOT INCLUDED IN REORGANIZATION

Neither the mood of the country nor good policy demand that all trade activities be combined into one agency. To do so would create a vast and cumbersome bureaucracy. Both Options 1 and 2 leave many functions where they are.

Agriculture Department

The export promotion activities of the Foreign Agricultural Service and the Commodity Credit Corporation are effective and enjoy support from Congress and the public. They should not be moved from Agriculture. Agricultural trade negotiations would continue to be conducted by the STR. The Commodity Credit Corporation would receive general policy guidance from the TPB and more specialized guidance from an export finance subgroup.

State Department

Lead responsibility for commodity policy and negotiations remains in State since these matters are the political heart of the North-South dialogue. East-West trade negotiations, jointly managed by State and Treasury and now in a delicate stage with active normalization of economic relations with China and Russia, remain at the discretion of the President.

Commerce Department

The technical issues involved in export control are best handled by the industry experts at Commerce. Industry analysis, a central interest of Commerce which deserves greater attention, remains in that department. Trade adjustment assistance responsibilities and administration of the textile program both benefit from the industry expertise of Commerce and should remain there.

Treasury Department

Investment policy revolves around financial and tax issues of primary concern to Treasury. Foreign assets control primarily involves financial and enforcement questions, not trade issues.

EVALUATION

Option 1 best responds to the real needs of the nation: an energetic export drive, not a concentration of import relief under one roof. If you give this approach your strong endorsement, we believe that we can gain the support of the country and the Congress.

The approach outlined in Option 2 would guard against a protectionist tilt in the administration of import relief actions, safeguard our international economic interests,

and--most importantly--lay the groundwork for an energetic export drive. The approach would be warmly received by the Congress and by business.

Three important objections can be raised against these options. First, they do not answer Labor's devout desire to design a more restrictive trade apparatus. Second, they would not serve as a vehicle for bolstering the Commerce Department. (Indeed, Commerce, like Treasury and State, would contribute substantial staff to the new apparatus.) Third, these approaches might be derided as government proliferation, even though (like the OMB approach) they merely reorganize existing units and add few, if any, new government personnel.

We think these various objections must yield to far more weighty national policy goals -- an aggressive export drive integrated into a coherent and liberally-oriented trade policy.

OPTION 1: Create a new U.S. Export Corporation building on the existing Eximbank. Leave trade policy coordination, trade negotiation, and counter-vailing and antidumping responsibilities where they are.

Recommended by: State and Treasury

Approve _____ Disapprove _____

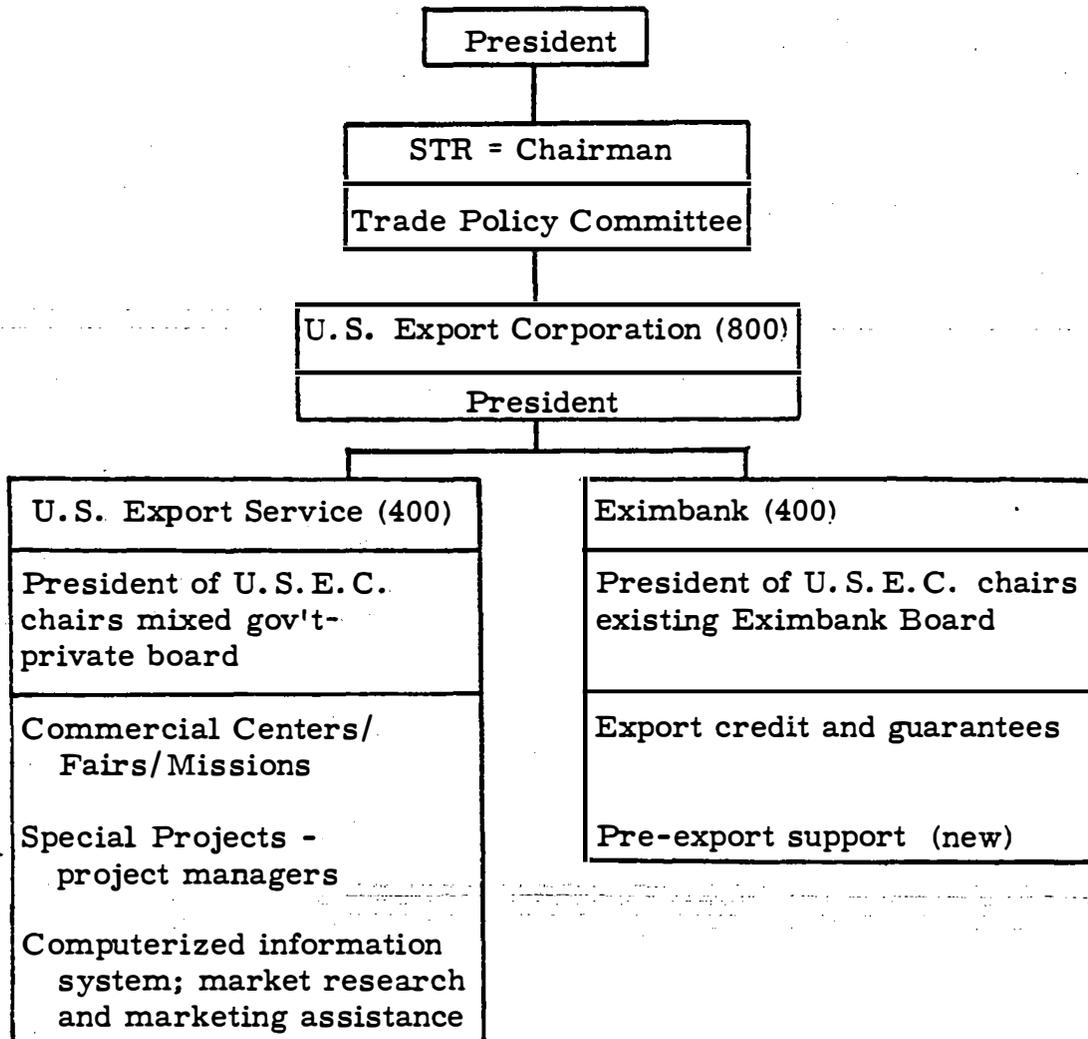
OPTION 2: In addition to the new U.S. Export Corporation, create a new U.S. Trade Policy Administration under the direction of STR and a reconstituted Trade Policy Board, both of which remain in the Executive Office.

Acceptable to: State and Treasury

Approve _____ Disapprove _____


Cyrus R. Vance
Secretary of State


W. Michael Blumenthal
Secretary of the Treasury



President

STR=Chairman
Trade Policy Board
(10)

U.S. Trade Policy Administration
(290)

Deputy STR=Administrator

Policy Coordination

- East-West trade policy issues
- Commodity policy issues
- Energy trade policy

Trade and textile negotiations

MTN follow-up

- Liaison w/ private sector
- Monitoring and enforcement of Codes compliance

Escape clause actions -
Coordination of advice to President

Section 301 and 337 - (unfair trade practices) remedies -
Investigation & dispute settlement.

Administration of dumping and countervailing duties

U.S. Export Corporation (800)

Deputy STR = President

U.S. Export Service (400)

President of U.S.E.C. chairs mixed gov't - private board

Commercial Centers/Fairs/Mission

Special projects -
export project managers

Computerized information system; market research and marketing assistance

Eximbank (400)

President of U.S.E.C. chairs existing Exim-bank board

Export credit and guarantees

Pre-export support/(new)

(Total personnel: about 1100)

Wellford

THE WHITE HOUSE

WASHINGTON

June 21, 1979

MEMORANDUM FOR: THE PRESIDENT
FROM: DICK PETTIGREW *Dick*
SUBJECT: Comments on Trade Reorganization Options

You have been presented with competing trade reorganization options by OMB/STR and Treasury/State. I have had the opportunity to consult intensively with business, labor and farm groups on this matter. Without doubt, the OMB/STR proposal best addresses the legitimate concerns these groups have expressed to me over and over regarding our current trade organization.

Generally, the three principal constituencies would have the following trade reorganization objectives:

Business. Most importantly, aggressive implementation of MTN, trade policy consistency and effective international representation on trade matters -- all best achieved in business's view by a strong STR-like entity operating out of the EOP. While business certainly wants to expand exports, no leading business groups seek reorganization as the chief means to that end. Treasury/State are flatly wrong in crafting and rationalizing a reorganization proposal (i.e., the U.S. Export Corporation) on the principal basis of export services and promotion. Business Roundtable, NAM and Chamber of Commerce representatives have all reacted negatively to the Treasury/State proposal. Business will support the Commerce enhancements proposed by OMB/STR, but even these are secondary to its chief goal of preserving a strong trade policy coordinator and negotiator in the EOP and ensuring a strong MTN enforcement mechanism.

The Chamber of Commerce and others want the STR also to be your chief international economic policy adviser. I feel the STR should be added to EPG, to which you have assigned responsibility for developing national and international economic policy.

Labor. Chiefly, a trade bureaucracy more concerned about the domestic impacts of imports and the legitimate need for relief from the job-threatening risks of unfair trade. Operationally, this objective leads labor (we have had extensive discussions with the AFL-CIO and some of its constituent unions) to recommend separation of responsibility for trade negotiations from responsibility for enforcement of import relief measures (especially countervailing

duties and anti-dumping). In their view, U.S. negotiators should not be compromising with foreign governments on matters of compliance and enforcement. Thus, labor tends to favor a somewhat weaker STR than business; however, labor has no reservation about the Commerce enhancements proposed by OMB/STR. In short, I would expect most of labor to support the OMB/STR proposal.

Agriculture. Chief proponent of a "neutral broker," i.e., STR, who can insure that agriculture views receive fair consideration in trade policy formation and international negotiations. Farm groups are very strong supporters of STR, which they view as sufficiently neutral, accessible and responsive, and powerful vis-a-vis Cabinet Departments. They would be most opposed to giving lead policy and negotiation responsibility to a Commerce-based department because of its perceived industrial constituency. They would be concerned that the Treasury/State proposal (i.e., their more ambitious option), by giving STR responsibility for trade promotion programs serving industry, would compromise STR's essential neutral broker role. In short, agricultural groups clearly favor the OMB/STR recommendations.

I would like to point out a few other areas of consensus identified in our consultation process:

1. With the sole exception of NAM (and even it is wavering), no interest group -- business, labor, or farm -- wants a separate trade department. Some business and farm groups might accept a small trade agency that was essentially STR with full policy, negotiation, and enforcement authority.

2. No significant constituency -- business, labor, agriculture -- would oppose transferring the commercial attaches out of State.

3. No significant constituency -- business, labor, agriculture -- would oppose removing from Treasury its countervailing duty and dumping functions (though there are differences of opinion as to whether STR or Commerce represents preferable placement).

(Wherever these functions are located, I would argue an important point that is at odds with the Treasury/State analysis. Although many would favor further reducing tariff and non-tariff barriers to trade, the multinationals now recognize that the MTN is vitally important because it establishes rules for fair, not "free," trade. These rules must be effectively enforced if American business is to be more competitive. A soft enforcement policy under MTN will negate the advantages that have won it strong political support.)

4. Most of the interest groups we consulted, and particularly the business sector, were very critical of Commerce as a department. Two common strains of discussion appeared -- Commerce's Industry and Trade Administration is weak (sectoral analysis), and Commerce has too many "distracting," "unrelated" responsibilities to pursue a clear trade and economic development mission. NOAA was most often cited as the chief distraction. In addition, a more complete name change, deleting "Commerce" altogether, would be symbolically attractive (e.g., Department of Trade and Competition or Trade and Economic Development), and would underscore your commitment to its renewed vitality in trade and business advocacy.

5. Although Ambassador Strauss is unique, all interest groups are particularly emphatic that his successor as STR must be a national figure able to handle Cabinet officers and the many conflicts that must be resolved by the STR under the OMB/STR option.

With Strauss and Wolff no longer available, many interest groups have questioned whether an appropriate successor presently exists within the Administration.

I believe the OMB/STR proposal is responsive, in a balanced manner, to real concerns expressed by trade constituencies. I strongly recommend it to you. The Treasury/State proposals are out of touch with the concerns of the chief trade constituencies, and administratively convoluted as well.

Flora Higgins

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 21, 1979

MEMORANDUM FOR THE PRESIDENT

From: Fred Kahn *Fred*
Charlie Schultze *CLS*

Subject: Trade Reorganization

We are opposed on principle to the proposal to centralize all import relief mechanisms in the Department of Commerce, as is recommended in the McIntyre/Strauss memorandum on Trade Reorganization (pages 12-14). We feel strongly that this issue is substantive, and not merely a problem of turf between agencies. If accepted, this proposal would mark a clearcut increase in the protectionist -- and inflationary -- nature of U.S. trade policy.

The rest of the McIntyre/Strauss proposal does not suffer from this failing, and is thus acceptable to us.

On the other hand, we feel that the Blumenthal/Vance alternative is quite creative and, on balance, would be preferable. The notion of a U.S. Export Corporation is appealing and likely to be politically viable. And if in your judgment the import relief mechanism must be reorganized, their proposed Trade Policy Administration is much preferable to the McIntyre/Strauss proposal for a Department of Trade and Commerce.



JUN 21 1979

MEMORANDUM FOR: JAMES McINTYRE
Director, OMB

FROM: HOWARD D. SAMUEL
Deputy Under Secretary of Labor
for International Affairs

SUBJECT: Trade Reorganization

HDS

After careful review I would like to make several recommendations for the presidential decision memorandum on trade reorganization. Although Secretary Marshall is out of town today, trade reorganization has been a major concern for him, and these comments reflect his view.

The Labor Department has a deep concern about its omission from membership on the proposed Trade Negotiating Committee and likewise urges a recharacterization of the views of organized labor, which I have heard first hand on a number of recent occasions. In addition we have some technical suggestions for the memorandum.

Membership of Trade Negotiating Committee

The Labor Department should certainly be a member of the Trade Negotiating Committee (page 5, second bullet). Labor's absence would undermine the labor advisory committees for trade, which have demonstrated their political effectiveness in the MTN process.

Labor Movement Views

References to AFL-CIO dissatisfaction with STR are inaccurate and should be deleted. On page 7, option 1, the phrase that the AFL-CIO "is dissatisfied with STR" should be dropped; likewise on page 9, first bullet, the parenthetic reference to AFL-CIO views should be dropped.

In fact, labor only opposed expanded negotiating authority for STR -- or any agency -- a position which has been met by current MTN legislation. Labor strongly supports an STR strengthened in terms of policy-making and coordination. To this end, a final new sentence should be added to the labor views paragraph, page 3: "Labor does support a strengthened interagency coordinating role for STR, including a wider trade policy involvement for the Labor Department."

Export Credit Policy

Export credit policy should, as recommended by STR, be included as a responsibility of the TPC (page 6). Treasury/NAC negotiators in the past have been unable to mobilize sufficient leverage to contain other countries' subsidized export credits.

Sectoral Analysis Functions

Labor and other departments carry out valuable sectoral analyses, in addition to those performed in DOC/ITA. All these capabilities need to be better coordinated and focused for policy makers. We suggest the following final sentence in this section (page 16): "Labor, Agriculture, and other sectoral analytic capabilities should also be coordinated in the TPC framework

Causes of Diminished U.S. Competitiveness

The listed U.S. competitive disadvantages (page 2, middle of page) are in part inaccurate. Higher labor costs and inefficient facilities, per se, have no competitive impact in a world of floating exchange rates; lagging productivity growth, declining rates of R&D and innovation, and falling investment rates in productive facilities, however, would represent real factors in declining U.S. competitiveness.



EXPORT-IMPORT BANK OF THE UNITED STATES

WASHINGTON, D.C. 20571

June 22, 1979

PRESIDENT
AND
CHAIRMAN

CABLE ADDRESS "EXIMBANK"
TELEX 69-461

MEMORANDUM FOR THE PRESIDENT

FROM: John L. Moore, Jr. *JLM*

SUBJECT: Comments on Trade Reorganization Proposals
Submitted by STR/OMB and by Treasury/State

Treasury/State Proposal

We support a modified version of Option 2 in the Treasury-State Option Paper. Our modification concerns the proposed U.S. Export Corporation. Nothing is gained by combining Eximbank with the proposed U.S. Export Service to form a U.S. Export Corporation. Instead, we suggest that the President of the U.S. Export Service and the Chairman of Eximbank report directly to the Trade Policy Board, along with the Deputy-STR heading up the U.S. Trade Policy Administration. The President of the U.S. Export Service and the Chairman of Eximbank would have Deputy STR rank (although there may be no need to call them as such).

STR/OMB Proposal

We reject the idea of having the Secretary of Commerce and Trade also serve as the Chairman of Eximbank. The Chairmanship of Eximbank is a full-time job. We do not see how this reorganization idea improves the current situation by giving us a part-time Chairman. Eximbank is currently viewed as highly effective by the business community. To be tied directly to Commerce in the proposed way could imply a dilution of effectiveness through bureaucratic attachment.

If there is a need to strengthen Eximbank coordination with Commerce, we would propose the following three options:

OPTION 1

The Secretary (or designee) of TAC shall serve as an ex-officio member (without vote) of the Board of the Export-Import Bank.

OPTION II

The Secretary (or designee) of TAC shall serve as Chairman of the NAC.

OPTION III

The Chairman of the Export-Import Bank shall consult on a regular basis (monthly) with the Secretary (or designee) of TAC to insure that the programs and policies of Eximbank are consistent with the National Export Policy.

We support reorganization that increases Eximbank's effectiveness and would therefore disagree with the characterization of Eximbank presented on page 10 of the STR/OMB proposal. We take issue with the assertion that Eximbank has supported transactions where other commercial bank financing has been available. We have not heard one complaint from the commercial banks that we have infringed on their own lending programs. Present Eximbank policies and structure have not shown any inconsistency (as stated on page 10) between our activities and overall trade policies. To the contrary, the OMB/STR proposal to place the Chairmanship of Eximbank in the Department of Trade and Commerce would send a signal that an agency which is doing a good job is being changed.

JLM:kcb

THE SECRETARY OF COMMERCE

WASHINGTON, D.C. 20230

June 21, 1979

MEMORANDUM TO THE PRESIDENT

Subject: Trade Reorganization

The trade reorganization process has aroused bureaucratic passions to an extraordinary degree. They have not escaped my Department. However, the overriding objective is to go forward with a strong trade reorganization that well serves the national interest. I believe that the OMB option best serves that end, and that would be my view if I had no institutional stake in the outcome. Here is my brief assessment of the options.

Treasury's Latest Option

The current Treasury-State proposal represents at least their fifth position. It was devised last Tuesday, supplanting their plan of five days before. Like its immediate predecessor, this proposal has not been staffed or considered in the interagency process that has been working for more than ten weeks.

The self-serving premise of this and all other Treasury-State plans has been the argument that Commerce is protectionist, constituent oriented, weak, etc. Their notions appear to be based on impressions at least a decade old. Their repeated attack that Commerce has a protectionist record in trade is contradicted by the facts, to which they do not refer. The attached paper documents the record of both STR and Commerce (the likeliest new homes for import functions) on escape clause cases and belies the assertion that Commerce has been protectionist. Moreover, Treasury and State disregard the fact that protectionism is not an institutional issue: under John Connally the Treasury Department was the leader of protectionist forces.

The latest Treasury-State proposal has a number of defects, each of which is alone sufficient to make the proposal unworkable.

- o It would create two new bureaucracies, a proposal contrary to the mood of both the public and Congress. To perform their assigned functions adequately would require far more than the understated numbers presented in the Treasury paper.

- o Whatever efforts are made to make the new entities "free standing," they will be viewed as appendages to the Executive Office of the President, reversing your efforts of the past two years.
- o By taking away the core of the Department of Commerce, this proposal would -- in the name of reorganization -- leave an irrational and disjointed department that would itself become a greater organizational problem than the presently dispersed trade functions.
- o Contrary to all proposals on the Hill, the preferred Treasury-State option would not consolidate, but would separate in three different agencies, export expansion, export controls, and import controls.

The OMB Proposal

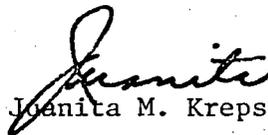
The proposal to create a Department of Trade and Commerce -- recommended by the reorganization staff, OMB, Bob Strauss, Stu Eizenstat, and me -- is the most logical institutionally, the best designed to deal with the trade issues we will face in the '80s, and the most politically balanced. It has the following specific advantages:

- o It will build on the department most extensively now engaged in trade activities. Commerce already is responsible for essentially all export expansion functions and export control functions, and its 1250 trade employees dwarf parallel numbers in STR (60), State (198), or Treasury (59).
- o It will place "trade" functions and industry sector expertise in the same department. They are inextricably intertwined, for trade issues are increasingly sector issues (e.g., steel, textiles, footwear). It is increasingly artificial to seek to separate domestic and international business issues, and a reorganization that attempts to do so would fail to meet the growing international trade challenges.
- o A Department of Trade and Commerce would also be responsible for a number of other issues intimately linked with trade:
 - Foreign trade statistics
 - Industrial innovation
 - Productivity
 - Trade adjustment assistance

- o It will create what all advanced competitor nations already have -- a trade department. This department would include both "carrots" and "sticks," allowing it to deal with trade issues across the board.
- o It will build on a department we have succeeded in strengthening substantially during this Administration.

Over the last two years we have done much to upgrade the performance of the Commerce Department. The results include an outstanding senior staff, greatly improved work product, and a promising future. We have come quite a long way, although the public image tends to lag behind the fact; we also have much more to do. In my judgment, the reorganization that OMB and Bob Strauss propose would greatly advance the revitalization process that is now underway and that is necessary to create the type of professional department needed in the future to deal with trade and private sector issues. Conversely, I believe that a decision to weaken and narrow the central responsibilities of this Department would be a serious blow and would more than undo the progress we have achieved.

I have spoken with Ribicoff, Roth, and key Congressmen. I am convinced the OMB option would be welcomed and would pass on the Hill. I am also confident that the Department could perform its new functions and perform them well.


Joanita M. Kreps

Import Relief Cases Requiring Presidential Decision

A review of 28 import relief cases, and the TPSC recommendation and agency votes on each, indicates the following:

1. The Commerce Department voted to deny import relief in 18 of the 28 cases. Of the 10 cases where Commerce favored relief, its vote was inconsistent with the Administration's ultimate decision in only three.
2. The votes of STR and Commerce were the same in 24 of the 28 cases.

Of the four cases in which STR and Commerce split, STR took the "free trade" position in two (nonrubber footwear and bicycle tires and tubes), and Commerce voted the "free trade" position in the other two (unwrought copper and high carbon ferrochromium)

The details of each case and the votes of STR and Commerce (which are confidential) are listed below.

Cases In Which STR and Commerce Voted the Same

Asparagus
Specialty steel
Slide fasteners
Stainless steel flatware
Mushrooms
Ferrocyanide pigments
Earthen and china dinnerware
Shrimp
Honey
Sugar
Mushrooms (reinvestigation)
Nonrubber footwear (reinvestigation)
Television receivers
Bearing steel
Cast iron stoves
Bolts, nuts, large screws
Specialty steel
High carbon ferrochromium
Citizens band radios
Stainless steel flatware (reinvestigation)
Nuts, bolts, large screws (reinvestigation)
Fishing tackle
Clothespins
Specialty steel

Four Cases In Which STR and Commerce Split

Nonrubber footwear
Unwrought copper
Bicycles tires and tubes
High carbon ferrochromium (re-
investigation)

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

21 June 1979

TO: JIM MCINTYRE

FROM: RICK HUTCHESON

SUBJECT: Your Trade Reorganization Memo

This memo does not adequately present the trade reorganization decisions to the President, and needs to be rewritten to include the views of all appropriate actors before going to the President.

Not typed
Moore

DATE: 21 JUN 79

FOR ACTION: SECRETARY VANCE

SECRETARY BLUMENTHAL

SECRETARY MARSHALL

SECRETARY BERGLAND

SECRETARY KREPS

ADMINISTRATOR MOORE

STU EIZENSTAT

ZBIS BRZEZINSKI

INFO ONLY: THE VICE PRESIDENT

JACK WATSON

ANNE WEXLER

SUBJECT: MCINTYRE MEMO RE REVISED TRADE REORGANIZATION

IMMEDIATE TURNAROUND

+++++
+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: +

+++++

P.S. It is also clear that we will have agencies actively opposing what ever the President decides.

ACTION REQUESTED: YOUR COMMENTS

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

PLEASE NOTE OTHER COMMENTS BELOW:

Our credibility on trade would be severely damaged if we failed to try to do something to make order out of aparent conflict within the Admin. We should submit the broad outlines of a proposal like STP/OMB and agree to work with the Hill to come to a satisfactory result w/o getting committed to bleed die for ~~the~~

*HL ✓
SL
FM
Ronma*

*Some small jurisdictional disputes among ex branch agencies -
Cable Over*

Further checking makes it more clear
that the OMB/STR option to the extent
it follows Jones Frenzel is the best
way to proceed on the House side.
Cong Bill Alexander as well as the others
~~them~~ who are on affected committees
must! be pre notified of any decision.

page 2

near bottom

the AFL CIO will
oppose

June 21, 1979

MEMORANDUM FOR THE PRESIDENT

SUBJECT: TRADE REORGANIZATION

*X replaced*BACKGROUND

Function follows form. The organization of our trade policy apparatus will shape that policy for years to come.

In broad outline, OMB recommends that you: (1) concentrate all operational trade responsibilities in one agency--the Commerce Department; and (2) centralize all trade policy and negotiating authority within the Office of the Special Trade Representative. The first recommendation invites two criticisms:

- The proposal shifts responsibility for administering all import relief mechanisms into one agency. In the best of circumstances that agency would come under a protectionist siege. But the OMB proposal places all administrative responsibility in an agency--Commerce--with a proven inability to resist protectionist forces. This shift in administrative responsibility foreordains a slide into protectionism thereby building an inflationary bias into our trade policy.
- We must make a determined effort to increase our exports, both by overcoming inertia in the private sector and by removing disincentives created by government. Otherwise we will be forced to rely on tight money, slow growth and unemployment to safeguard the dollar. To avoid this dilemma, we need a fresh and energetic approach to our export promotion efforts. We cannot rely on the Commerce Department which has long employed the largest trade bureaucracy in Washington with the least enviable track record. Shifting additional export responsibilities--such as the highly regarded Export-Import Bank--to the Commerce Department will be seen as building on weakness, not strength.



In light of these criticisms, we suggest two quite different approaches. Our preferred approach, Option 1, would not disturb the administration of import relief functions. Rather, trade reorganization energies would be channeled where they are most needed--into a lively new organization designed to energize our export promotion efforts.

Our fallback approach, Option 2, is offered in the event you believe that the political case for reorganizing import relief functions has now become overwhelming. In that event, the trade interests of the nation would best be served by concentrating import relief functions in a non-constituent agency, reporting to the Special Trade Representative who, with an extremely small staff, would continue to be located in the Executive Office and would remain responsive to a senior policy board composed of Cabinet members.

The attached charts illustrate Options 1 and 2. Both options involve little or no net expansion of government personnel; in both cases the major components are drawn from existing staff.

OPTION 1

U.S. Export Corporation

To provide for more effective export promotion, a new U.S. Export Corporation building on the existing Eximbank would be established outside the Executive Office. It would have two arms: a U.S. Export Service responsible for export promotion activities and the Eximbank responsible for official export financing. The senior executive of both arms would be the President of the U.S. Export Corporation. The U.S. Export Service would have a mixed government/private sector board of directors. The Eximbank Board would remain as it is now constituted. The corporation would receive policy guidance from and report to you through the Trade Policy Committee which would continue to be chaired by your Special Trade Representative.

U.S. Export Service

The U.S. Export Service would be responsible for the full range of export promotion activities: commercial centers overseas, trade fairs, market research, trade missions and business services. Its overseas personnel would assume the purely commercial functions and services now provided by our embassies. The staff would be

drawn from the private sector and from the State Department commercial attaches (about 100). These staffs would operate out of business-oriented offices separate from the distractions of embassy life but under the authority of the ambassadors.

The Export Service would use the existing Commerce field offices to reach businesses across the country.

The necessary Washington and field staff would be transferred from Commerce to the Export Corporation.

An Office of Special Projects would be established in the Export Service's headquarters to handle large overseas projects that involve purchases of a broad spectrum of goods and services and require penetration through layers of government regulation here and abroad. Export project managers would be appointed to assist U.S. firms in competing for these projects.

Eximbank

No change is proposed in Eximbank's operating procedures, or the composition of its Board of Directors. The Eximbank would continue to respond to the broad policy guidance of an interagency export finance group chaired by the Treasury.

Administration of Import Relief

Under Option 1, the existing administration of import relief cases would not be disturbed. The present pattern of administrative responsibility means that there is no single agency that can easily be co-opted by those seeking relief. Thus, STR would continue to coordinate policy advice to the President on escape clause cases, and handle the investigation of unfair trade practice cases. Treasury would continue to administer national security cases and countervailing and antidumping duty cases. These last-named cases are the most contentious aspect of the whole reorganization debate.

Much of the frustration directed at Treasury's handling of countervailing and antidumping cases reflects discontent, first, that Treasury has not always sided with those seeking relief, and second, that administrative procedures are too slow.



If the antidumping and countervailing duty laws are fairly administered, some petitioners will always go away empty-handed. But Treasury has taken steps to speed up the administrative process: significantly more personnel are now budgeted to handle the case load. Moreover, the new law imposes considerably shortened time deadlines. Thus, in our judgment, discontent with Treasury's performance will soon decline.

Meanwhile, a strong argument can be made for leaving the administration of these cases in Treasury. More than 80 percent of the workload is handled by the Customs Service, with policy direction and final decisions supplied by a small corps of Treasury officials. The Customs officers assigned to these cases also handle regular Customs work. Significant management inefficiencies would arise if transfer of the Customs officers caused them to concentrate solely on the uneven flow of countervailing and antidumping cases. On the other hand, if policy guidance were shifted out of Treasury, and if the Customs officers were not also transferred, other management inefficiencies would arise from the problems of coordination between two different agencies.

Trade Negotiations

Under all options, including those offered by OMB, the conduct of trade negotiations would remain under the STR. Recent successful completion of the MTN indicates that policy formulation for and conduct of trade negotiations is highly satisfactory under the present system.

OPTION 2

We recommend Option 2 if you believe that a drastic reorganization of our trade apparatus is required. The approach we offer would consist of both a U.S. Trade Policy Administration to formulate, negotiate and administer trade policy and the U.S. Export Corporation outlined in Option 1. These two organizations would be located outside the Executive Office and would report to the STR through two Deputy STRs. Both organizations would be staffed by existing personnel drawn from STR, State, Treasury, and Commerce.



Central Structure

The Special Trade Representative should remain in the Executive Office of the President with Cabinet rank. He should continue as chief U.S. trade negotiator and central coordinator of trade policy. He would, however, delegate direct operational responsibility for administering trade actions to his two deputies.

The Cabinet-level Trade Policy Committee would be reconstituted as the Trade Policy Board (TPB), chaired by the STR and located in the Executive Office. State, Treasury, Commerce, Agriculture, Labor, Energy, the Attorney General and the Chairman of the Federal Reserve Board would be represented on the Trade Policy Board. Subgroups of the Trade Policy Board would be chaired by appropriate agencies to coordinate particular policy areas. For example, Treasury would chair a subgroup on export finance policy; Energy would chair a subgroup on energy trade policy; State would chair a subgroup on commodity policy. Private sector advice would reach the TPB through the existing Advisory Committee for Trade Negotiations and President's Export Council.

The STR and TPB, which both remain in the Executive Office, would be supported by a staff of about ten persons. This staff would perform the honest-broker function in the interagency policy formulation process. The staff would assure that important issues are presented in a timely fashion.

U.S. Trade Policy Administration

A U.S. Trade Policy Administration (USTPA) would be established outside the Executive Office. It would be headed by an Administrator who would be a Deputy STR with ambassadorial rank. The USTPA would assume all current operational functions of the Office of the Special Trade Representative, plus responsibility for implementing U.S. trade agreements and for administering the anti-dumping and countervailing duty statutes.

Our preferred approach would leave antidumping and countervailing duty cases in the Treasury. But if political considerations dictate that this administration must be shifted, we think it is vital that the administration not be shifted to a constituency agency--the Commerce Department. Rather, these cases should be handled by an independent administration, free of protectionist bias, reporting to the STR in the Executive Office and to a broad-based Trade Policy Board (TPB).

The Trade Policy Administrator's responsibilities would also include: interagency coordination; trade and textile negotiations; liaison with private sector advisory groups; monitoring compliance and enforcement of U.S. rights under MTN codes; implementing Sections 201 (escape clause) and 301 and 337 (unfair trade practices) of the Trade Act of 1974; and representing the United States in meetings of the GATT.

The staff would include the present STR plus existing staff drawn from Treasury to administer antidumping and countervailing duty statutes.

U.S. Export Corporation

As in Option 1, this option also contemplates a new U.S. Export Corporation, built around the existing Eximbank. The only difference is that, in Option 2, the President of the U.S. Export Corporation would be a Deputy STR with ambassadorial rank, reporting to the STR.

FUNCTIONS NOT INCLUDED IN REORGANIZATION

Neither the mood of the country nor good policy demand that all trade activities be combined into one agency. To do so would create a vast and cumbersome bureaucracy. Both Options 1 and 2 leave many functions where they are.

Agriculture Department

The export promotion activities of the Foreign Agricultural Service and the Commodity Credit Corporation are effective and enjoy support from Congress and the public. They should not be moved from Agriculture. Agricultural trade negotiations would continue to be conducted by the STR. The Commodity Credit Corporation would receive general policy guidance from the TPB and more specialized guidance from an export finance subgroup.

State Department

Lead responsibility for commodity policy and negotiations remains in State since these matters are the political heart of the North-South dialogue. East-West trade negotiations, jointly managed by State and Treasury and now in a delicate stage with active normalization of economic relations with China and Russia, remain at the discretion of the President.

Commerce Department

The technical issues involved in export control are best handled by the industry experts at Commerce. Industry analysis, a central interest of Commerce which deserves greater attention, remains in that department. Trade adjustment assistance responsibilities and administration of the textile program both benefit from the industry expertise of Commerce and should remain there.

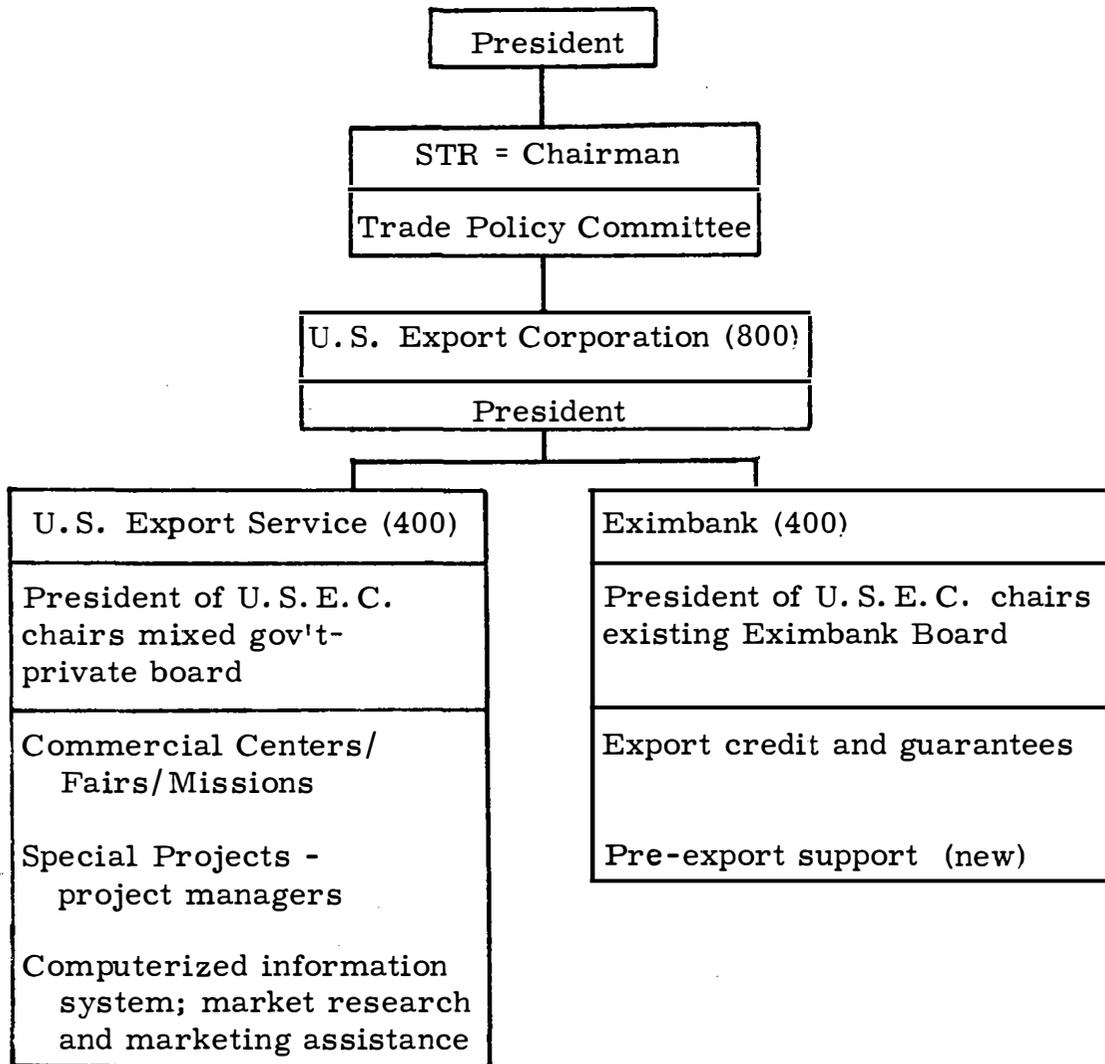
Treasury Department

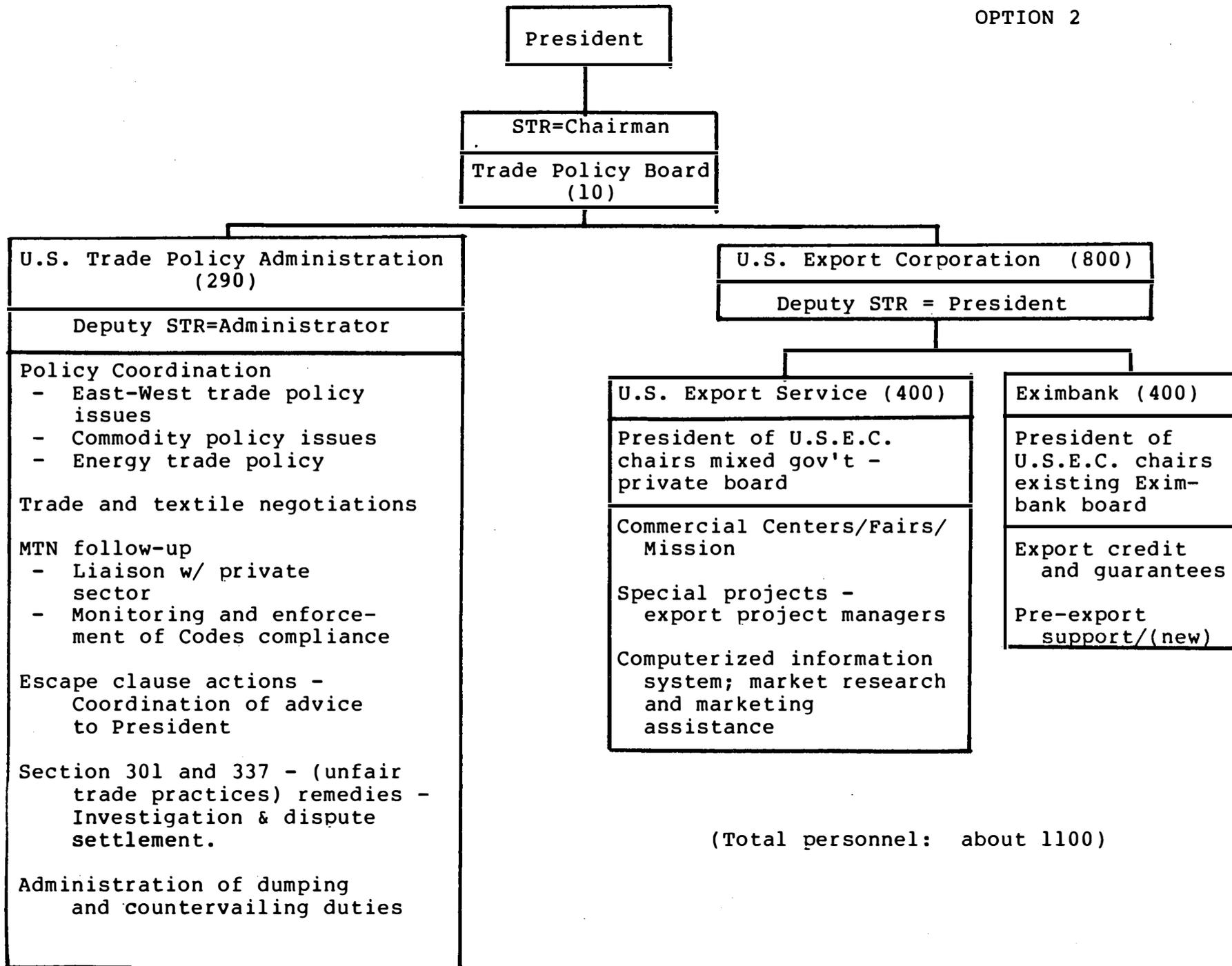
Investment policy revolves around financial and tax issues of primary concern to Treasury. Foreign assets control primarily involves financial and enforcement questions, not trade issues.

EVALUATION

Option 1 best responds to the real needs of the nation: an energetic export drive, not a concentration of import relief under one roof. If you give this approach your strong endorsement, we believe that we can gain the support of the country and the Congress.

The approach outlined in Option 2 would guard against a protectionist tilt in the administration of import relief actions, safeguard our international economic interests,





(Total personnel: about 1100)

THE WHITE HOUSE
WASHINGTON

Received 6/9 530pm
from Harrison Wellford.

Keep



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Industry and Trade
Washington, D.C. 20230

July 6, 1979

Mr. Harrison Wellford
Executive Associate for Reorganization
and Management
Office of Management of Budget
Room 246 Old Executive Office Building
Washington, D.C. 20503

Dear Harrison:

Per our conversation here are my personal views on the trade reorganization.

My opinion is based on the past two and a half years of labor in the trade vineyard. The key is the unification of policy and operations.

State-Treasury proposal number two establishes a trade leadership responsible for both policy and operations. If these two tasks remain divided, future government actions are likely to be both disjointed and ineffective. I saw this same problem on a lower level when I arrived at the Department of Commerce. Our trade function was then divided. We succeeded in reuniting it. What success we've had since has been due to that fact.

Until recently I had believed that Executive Branch trade functions could be unified in the Department of Commerce. Current political perceptions on the Hill and in the White House appear to rule out this option. The Department of Commerce is evidently seen as weak, protectionist, and insensitive to agricultural interests. Right or wrong, these perceptions are a political reality that we have to accept.

Since substantive and political considerations both argue that the President needs to modify the trade function, and since the Department of Commerce apparently has been ruled out as the center, two options remain: divide the subject - policy to STR and operations to Department of Commerce or unify under STR in some fashion. The issue, the Nation and the President need success. It seems to me that option 2 in the State-Treasury memo of June 21 is the best overall solution in principal.



I decided last week to put my broad concern for the issue ahead of any Department of Commerce parochial concerns. Accordingly, I advised Juanita of my decision to leave the Department this fall in order that I might be free to express this opinion.

Where the trade functions are put together is less important to the President and the Nation than that they be united. I hold no brief for the State-Treasury position except to say that I believe they are right on this issue.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Frank A. Weil'.

Frank A. Weil
Assistant Secretary for
Industry and Trade