The original documents are located in Box 111, folder "CIEP Meetings and Actions (4)" of the National Security Council Institutional Records at the Gerald R. Ford Presidential Library.

CIEP CORRESPONDENCE PROFILE

DOC MO	DOC DA	RECD MO	RECD DA	RECD HR	LOG NBR	INITIAL ACTION OFF
01	24				53276	1a

DOC SOURCE/CLASS/DESCRIPTION

From: PMF

Incoming ____ TO: Pres ____
Outgoing X PMF ____
Internal ____ Other ____

Action ____
Log Only X

U ____
LOU X
C ____
S ____
TS ____

SUBJECT: CIEP EXECUTIVE MEETING, THURSDAY, JANUARY 31, 11:00 A.M. IN ROOM 208, OEOB

Originator's Ref. No. ____ Xeroxing Instructions ____

SECRETARIAT DISTRIBUTION/ACTION

INTERNAL ROUTING AND DISTRIBUTION

ADVANCE CYS TO	ACTION	INFO	REC CY FOR
Executive Secretary		X	
Deane Hinton		X	
Ray Sternfeld		X	
Robert Morris		X	
Jon Rose		X	
Gus Weiss			
Larry Brady			
John Niehuss		X	
Dick Erb		X	
Bill Hawley		X	

ACTION REQUIRED

MEMO FOR PMF .... ( )
MEMO FOR PRES .... ( )
REPLY FOR ____ SIGNATURE .... ( )
.... ( )
MEMO ____ TO ____ .... ( )
RECOMMENDATIONS .... ( )
.... ( )
Refer to ____ .... ( )
ANY ACTION NECESSARY .... ( )
CONCURRENCE .... ( )
DUE DATE:

COMMENTS: *(Including Special Instructions)*

INTERNAL/INTERIM ROUTING

DATE	FROM	TO	S	ACTION REQUIRED	Init

DISPOSITION

CROSS REF WITH ____ NOTIFY ____ DATE ____
SEE LOG ____ DISPATCH: LETTER/MEMO ____
JOINED BY LOG ____ COPIES: (AS MARKED ABOVE) ____
SPECIAL DISPOSTION COMMENTS· ____

Filing Data

WHC X all X
CIEP:
CIEPSM ____
Other ____

1c

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

MEMORANDUM FOR MEMBERS OF THE COUNCIL ON INTERNATIONAL ECONOMIC POLICY

FROM: W. D. Eberle

SUBJECT: Moving Forward with the Trade Bill

The Immediate Issue

The recently highlighted problems of supply access will be used by opponents of the trade bill to question the continued relevance of the bill and to delay its passage by the Senate. In addition, the Senate Finance Committee will consider amendments to the trade bill and will require negotiation on supply access and export controls, and multilateral sanctions. The negotiations could be undermined either by delay of the trade bill or enactment of a bill which is unreasonably rigid in its negotiating requirements.

A coordinated Administration approach is needed for the Senate Finance Committee hearings, which may begin as early as the first week in February.

The Administration's Response

a. the need for the bill

Supply problems have increased rather than reduced the need for prompt enactment of the trade bill. Enactment of the Trade Reform Act is necessary to give credibility and authority to United States negotiators speaking on trade issues in international forums. For this reason, delay in passage of the bill significantly increases the risk of other countries foregoing the process of multilateral cooperation and seeking their own narrow solutions to common problems.

Moreover, there has not been a complete turn-around in the trade problems faced by the United States. Obtaining market access abroad is not only still of strong concern, but is more important as countries are tempted to try to finance trade deficits, caused by the rising cost of energy imports, by restricting imports of other goods. Thus, there is a risk of an escalating use of both import and export controls. The trade bill gives the legal tools to deal with these problems. It also establishes the means through which industry and Congressional inputs on these issues can be received and applied.

1b

THE WHITE HOUSE

WASHINGTON

January 23, 1974

MEMORANDUM FOR: SECRETARY OF THE TREASURY
SECRETARY OF STATE
SECRETARY OF DEFENSE
SECRETARY OF AGRICULTURE
SECRETARY OF COMMERCE
SECRETARY OF LABOR
SECRETARY OF TRANSPORTATION
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET
CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISORS
THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

FROM: PETER M. FLANIGAN PMF

RE: Meeting of The Council on International Economic Policy, Thursday, January 31, 11:00 A.M., Room 208, OEOB.

Since our previous meeting on the Administration's presentation of the Trade Bill to the Senate, problems relating to shortages of crucial raw materials have come forceably to the fore. These have been reflected, among other things, in the proposed Mondale and Ribicoff amendments.

A discussion of this issue and a proposed Administration position is set forth in the attached memorandum from Ambassador Eberle, with the STR Interagency Task Force Report on Short Supply, also attached.

Please confirm your attendance at the CIEP meeting to discuss this position to Glen Stafford on 456-2937.

Attachments (2)

b. Senate amendments on supply issues

Senators Mondale and Ribicoff have proposed amendments to the Trade Reform Act which: (1) direct the President to negotiate international rules on supply assurance and export controls, and provisions authorizing multilateral sanctions for violation of the rules; and (2) authorize the President to retaliate against illegal or unreasonable export restraints imposed by a foreign country, by placing import restrictions on its products, or restrictions on United States exports to it; denying it economic and military assistance, credits, and investment and credit guarantees; and prohibiting or restricting U.S. investments in the country.

It should be noted that these amendments will not fundamentally affect the GATT, the trade negotiations, the trade bill as passed by the House, or current legal authority. The GATT already contains rules of the type called for although these can be modified. The negotiations will deal with supply issues in any event. The trade bill already provides a basis for negotiating on specific export controls. Finally, the retaliatory authority granted is already contained in several existing laws.

However, because the Mondale amendments are symptomatic of important Senate concerns, the Administration should be receptive to the amendments as a useful point to begin Senate consideration of supply issues for the negotiations. We can stress the need for a broad and flexible Congressional mandate for negotiating on supply and other trade matters, as a starting point for a closer working relationship with the Congress, and the basis for our negotiators' credibility abroad.

While avoiding fostering unrealistic expectations that the negotiations will produce a complete system for satisfactorily assuring equitable access to supplies, we can anticipate progress on supply issues, taking fully into account United States interests both as a supplier-exporter of food and raw materials and a consumer-importer.

<u>RECOMMENDATIONS</u>

Drawing on the attached interagency paper on the short supply problem, I suggest that the Council approve the following general guidelines:

1. To support adoption in the trade bill of a general, flexible and realistic mandate to deal with supply issues in international negotiations (rather than rigid requirements);

2. To approach the Mondale amendment concerning the negotiations as a constructive suggestion which can serve as a starting point for Senate consideration of ways to deal with supply issues in international negotiations;

3. To view the amendment authorizing retaliation against foreign export restraint as not being necessary, but one which should be fully considered.

Attached is an STR draft of an initial interagency report on the short supply problem and the trade bill based upon interagency discussions and materials submitted by agency participants. It includes discussion on the following points:

1d

PRELIMINARY REPORT ON THE SHORT SUPPLY PROBLEM AND THE TRADE BILL

STR Interagency Task Force on Short Supply

January 16, 1974

Introduction

The issue of having international negotiations on access to vital raw materials will be examined by the Senate Finance Committee in the course of its consideration of the Trade Reform Act. The Committee will consider both the broad outline of the negotiating mandate to be granted on supply issues and the authority to be given to the President to react against specific short supply problems caused by other countries. Because any negotiating directive from the Congress on supply issues should be drawn broadly enough to encompass the anticipated range of United States negotiating objectives, an analysis is necessary of the type of legislative provision that would meet this criterion.

To further this discussion, this paper looks generally at problems of short supply and of obtaining international rules on short supply and export controls. In addition, it analyzes the potential impact of the Mondale amendment on the negotiations and assesses some of the pros and cons with respect to its adoption.

The Problems of Short Supply: Types of Situations

There is a tendency in public discussion to speak of present or impending commodity and raw material supply shortages as if they were all of one type for which a single set of policies could be developed. This is, of course, not the case.

A major issue which has spurred Congressional interest is the possibility of artificially created international shortages of raw materials contrived by producing countries to extract political and economic concessions, as in the case of oil. There is concern that producers of other vital raw materials could join together to exact price concessions, which, while not politically motivated could have similar serious economic consequences for consuming nations. Such limitations may be in the form of an actual cutback from former levels or a failure to increase to higher levels; in either case, it would represent an action to reduce supply below the level of current or anticipated demand.

Under normal free market conditions, short supply situations would be indicated primarily through price increases for a particular commodity or product as the market mechanism worked to ration the available supply among prospective purchasers, eliminating those whose demand was less intense and who were therefore unwilling or unable to pay the higher price. Users may also curtail the amount of their current purchases and continue their operations by drawing down inventory below normally desirable levels.

Price increases resulting from increased production costs and agreed upon by producers and consumers in terms of a contractual agreement (essentially, a pass through of cost increases) do not indicate, of themselves, a current shortage situation. It may be argued that such cost oriented price adjustments head off supply shortages by keeping what would otherwise be submarginal producing units in operation.

In today's economy, given our economic stabilization program, domestic short supply is likely to develop in the form of a two-tier pricing system with consequent incentive on American producers to export larger than normal amounts of goods. There are many commodities in which we have experienced or are likely to experience domestic shortages in 1974. The basic reasons for these shortages include changes in exchange rates, increases in foreign and domestic demand, and limitations on the capacity or the expansion of domestic supply. (See Appendix III)

Supply constraints can come about because of raw material unavailability, capacity limitations, and production cutbacks associated with energy related shortages or environmental regulations which may have reduced production capacity.

Sometimes the economic forces which produce a short supply situation are of short duration. Unusual weather conditions can affect supplies of agricultural commodities in this way. This is what happened with the production of grains and soybean meal substitutes the last two years for example. If production is at capacity, sudden increases in foreign or domestic demand patterns can create short supply situations until production can adjust to catch up. This has been the case from time to time with softwood logs and lumber. Rising long-run demand trends in such a situation could cause long-run pressure on supplies. It is still a matter of dispute whether this is the situation which agriculture will face worldwide for the foreseeable future, but it is a possibility which must be considered.

In some cases, producing countries are affected because their resources may be drained by foreign speculative buying and hoarding which disrupts their historic trade patterns and leaves them without adequate supply to meet their domestic needs. Consuming countries are affected because there may be an inequitable distribution of the available supplies among consuming countries, leaving some without adequate supply to meet their legitimate needs.

Certain factors should be recognized in examining the shortage question:

1. Shortfalls need only to be very small to generate sharp price impacts. Experience indicates that imbalances on the order of only a few percent can result in much larger proportional increases in price.

2. Shortfalls resulting from a single supplier incident can result in pervasive price increases by all producers.

3. The rapidity of the resultant price increase after the shortage creating action is determined by:

- quantities in the industrial supply system including consumer stocks
- quantities in government stocks
- potential available from other sources to increase output and length of time to be effective (surplus productive capacity)
- availability of alternative materials in terms of time and cost.

4. Shortfalls may be applied in discriminatory fashion but resulting price increases tend to be pervasive.

5. Discriminatory shortfalls tend to be evened out among consumers so that all consumers feel supply impact as well as price impact.

6. Shortages in a single commodity tend to be reflected in secondary shortages in other commodities (a ripple effect):

- some (particularly in minerals) because one or more materials are produced from the same source
- others because of the impact of increased demand on commodities which may be substituted for the original impacted commodity.

7. Secondary or reflected shortages tend to be expressed by secondary or reflected price increases.

Short term economic solutions are limited. Usually consist of price adjustments and limited efficiences where possible or allocation of reduced supplies. Often the response involves all three. Almost inevitably stocks, private or government, are drawn down.

Long term adjustments involve developing alternative sources, seeking economic substitutes, or developing new process technology where possible. Practically all involve higher cost, reallocation of financial and research resources, diversion of capital and time. Sometimes a new technology results in improved process efficiency. (For example, taconite derived iron ore costs more but pays back in process efficiency.) In addition, the prediction of a shortage which is to take place a few years later can avert the shortage. The prediction causes suppliers and consumers to change the conditions which would have resulted in the shortage.

The Lack of Adequate International Mechanisms

a. The GATT:

The General Agreement on Tariffs and Trade currently fails to provide an adequate international mechanism for the resolution of trade problems arising from export restraints, controls, or embargoes.

The basic rule of the GATT, contained in Article XI:1 is that, unless justified under one or more of the exceptions contained in the General Agreement, quantitative restrictions on imports or exports may not be imposed. However, numerous exceptions to this prohibition on quantitative limitations are contained in the GATT.

Article XI:2 contains an exception for cases of critical shortages, an important exception in view of the increasing scarcity of important raw materials. Article XI:2(a) excepts:

> "Export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs of other products essential to the exporting contracting party;"

Obviously, there is a large measure of subjectivity in the standards contained in this provision.

An exception in Article XX(i) permits restrictions on exports of domestic materials necessary to ensure essential quantities of these materials to domestic processing industries during periods when the domestic price of such materials is held below the world price as part of a governmental stabilization plan. This exception is qualified in two fashions: first, it may not be used as a means of increasing the exports of the domestic processing industry for the benefit of which the controls are imposed; and second, such controls may not depart from the provisions of the GATT relating to nondiscrimination.

The broadest exception to the prohibition in Article XI:1 is the general exception in Article XX(j), which provides:

"Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption of enforcement by any contracting party of measures:

* * *

(j) essential to the acquisition or distribution of products in general or local short supply; Provided that any such measures shall be consistent with the principle that all contracting parties are entitled to an equitable share of the international supply of such products, and that any such measures, which are inconsistent with other provisions of this Agreement shall be discontinued as soon as the conditions giving rise to them have ceased to exist."*

* The United States originally supported a much more limited exception than that now appearing in Article XX(j). As originally proposed, the exception would have been limited in time to the immediate post-war years, and would have justified only (1) measures to assure equitable distribution among consuming countries of products in short supply, (2) measures essential to the maintenance of war-time price controls by a country undergoing shortages subsequent to the war, and (3) measures essential to the orderly liquidation of surpluses accumulated as a result of the war. No such measures could have been imposed until the state proposing to take action had consulted with other interested contracting parties, and all such measures would have had to be removed by July 1, 1949, or earlier if conditions permitted, unless the contracting parties agreed to further extensions of six months each. See Article 25 of the Suggested Charter for an International Trade Organization, published by the United States Government in September, 1946.

Article XX(j) provides that the Contracting Parties will review the need for this exception not later than June 30, 1960. In 1960, and again in 1965, the Contracting Parties voted to retain this subsection "for the time being" and in 1970, they voted to retain it permanently.

This exception, while similar to that contained in Article XI:2(a), is broader in two important respects. First, in place of requiring a "critical shortage" or threat thereof of the product to be controlled, all that is required is a condition of "general or local short supply", which would appear to be a much less restrictive condition. Second, there is no express requirement that the controls be temporary, but only that they be removed "as soon as the conditions giving rise to them have ceased to exist". It may now be readily seen that, with respect to resources in short supply world-wide, this exception could be invoked in an attempt to justify control measures of indefinite duration.

The other condition under this provision -- that measures must be "consistent with the principle that all contracting parties are entitled to an equitable share of "the international supply" of" the product restricted -- is subject to varying interpretations. If it requires no more than sharing that portion of the supply of a commodity which is, from time to time, available for trade after domestic needs have been met, the proviso is not a limitation on the right of a contracting party to impose export controls to guard against domestic short supply, but rather a restatement of the "principle" of Article XIII that if such controls are imposed, the restrictions must apply equally to all third countries.

Article XX(j) contains no requirements that restrictions be imposed on domestic consumption in conjunction with the imposition of export controls. In this respect, it differs from Article XX(g), providing an exception for measures relating to the conservation of exhaustible natural resources.

Article XX contains other general exceptions which would permit the use of export controls for specified purposes, subject to the general rule of nondiscrimination. For example, Article XX(g) permits measures relating to the conservation of exhaustible natural resources, if taken in conjunction with restrictions on domestic production or consumption. Article XX(h) permits measures taken in accordance with international commodity agreements conforming to criteria not disapproved by the Contracting Parties or if the commodity agreement itself had been submitted to the Contracting Parties and not disapproved.

Article XXI contains a general exception for measures which a Contracting Party considers necessary for the protection of its essential security interests, taken in time of war or other emergency in international relations. This, again, is a highly subjective exception, and may be used, and abused, to justify departures from the ordinary GATT rules of conduct, including the imposition of export controls.

Thus, although in theory the imposition of export controls is contrary to the GATT and justifiable only under exceptional circumstances, "The combined effect of these exceptions and the other GATT exceptions that apply both to import and export obligations, especially the national security exception in Article XXI, leave little, if any, effective GATT policing of export control policy." (Jackson, World Trade and the Law of GATT, p. 502.)

b. Other Forums:

There are other existing mechanisms which deal with problems of supply. The network of international commodity study groups, of which the United States is a member, covers many of the commodities in which tight-supply situations have arisen from time to time. The study groups in question include parent bodies concerned with international commodity problems of a general nature (UNCTAD's Committee on Commodities and FAO's Committee on Commodity Problems) and individual commodity bodies which cover, among others, lead and zinc, tungsten, rubber, cotton, fats and oils, jute and hard fibers.

These groups are designed to serve as agencies for data collection and publishing and as forums where member countries can regularly (typically once a year) exchange views on mutual problems as well as assess the supply demand outlook. Any recommendations developed in these forums are purely advisory. However, raising the issue of export control in these groups with a view to soliciting views on possible solutions to problems perceived by the United States could result in an expectation that the United States be simultaneously prepared to offer equivalent steps to deal with possible future surplus situations.

In addition to the commodity study groups, there are a number of commodity councils which administer international commodity agreements. The most relevant of these is the International Tin Council. However, the U.S. is not a member.

The Need for an International Mechanism

If policies on distribution and control of available commodities are arrived at unilaterally by each nation without regard to any effective international principles of fair allocation, disruptions in international trade flows are likely to occur and there is unlikely to be an efficient allocation of resources.

Some major countries may adopt the attitude that postponement of multilateral negotiations is required citing overriding concerns over access to energy resources and other vital raw materials, while they seek bilateral solutions. The dangers of "begger thy neighbor policies" in times of shortage are as great or greater than the competitive protectionism against imports that prevailed in the 1930's. Governments will face strong domestic pressures -- the new protectionism -- to maintain industrial production and food stocks at the expense of sharing with other countries. They will also face the temptation of attempting to finance trade deficits caused by the rising cost of energy imports by restricting imports of other goods. There will be a danger of an escalating use of import and export controls without an effective multilateral framework for cooperation.

Pressures due to concern over access to food and raw materials are building that could result not only in halting progress towards reform of the international economic system but in its disintegration. It is therefore vital that there be an ongoing international process of negotiation where new problems can be placed into the broader perspective of world economic interdependence. The Energy Conference, the World Food Conference, and the Multilateral Trade Negotiations (MTN) are important parts of this process.

General Identification of United States Interests*

From the United States point of view, both as a major producer and as a major consumer of commodities which may be in world shortage, the problem is to initiate some form of international cooperation which would go as far as feasible in fostering open and nondiscriminatory trading arrangements without unduly restricting our own freedom of action to support United States economic and political objectives.

U.S. interests as a supplier of an agricultural commodity or raw material include the following:

(1) to allow the free market price mechanism to be the regulator of supply and demand relationships, to the extent possible, recognizing the political and social problems that are involved;

(2) to preserve foreign policy flexibility;

(3) to minimize the impact of short supplies on our balance of trade and payments position;

(4) to prevent short supply situations from disrupting established trade patterns and creating further breaks in the production chain;

(5) to minimize the inflationary impact on domestic prices;

* This section should be expanded to cover objectives where

(6) to increase production and/or reorient demand as quickly as possible so as to relieve the disruption;

(7) to coordinate domestic policy responses with the economic concerns and policy reactions of other supplying and importing countries so as to preserve order in the international economy;

(8) to assure that the economic burdens of shortages are distributed fairly among all supplying and importing countries;

(9) to seek agreement on a principle that allows supplying countries to fully take into account their own needs;

(10) to obtain a commitment from others that they will refrain from pre-emptive purchasing (stockpiling) to avoid anticipated short supply.

U.S. interests as an importing consumer of commodities and raw materials include the following:

(1) to prevent artificially created supply shortages, whether caused intentionally or inadvertently;

(2) to obtain equal access to available supplies;

(3) to coöperate with producer countries to encourage expansion of supplies as rapidly as possible.

These objectives could find initial expression in a declaration of broad principles to which universal adherance would be sought. Following this, more detailed international rules could be formulated which could be the subject of international negotiation. Some questions of particular concern which will require resolution in the course of formulation of the United States position for negotiations on more detailed rules will be:

(1) The question of international sanctions. The question of when imposition of export controls is justified economically has been a judgment which has been made by the country concerned without the danger of subjecting itself to international sanction.

(2) The use of export controls for foreign policy or national reasons. The United States controls exports to several destinations (e.g., Cuba, Southern Rhosesia) on the basis of foreign policy. Such controls are not easily distinguishable in an international forum from similar "foreign policy" controls recently imposed by the Arab nations. In addition, other countries may claim our broad ranging controls for national security reasons are essentially "political" and seek an international agreement limiting or prohibiting such controls.

(3) Use of guarantees of minimum levels of sales or purchases. Such an understanding would put the Government in the position of insuring that private importers and exporters maintained specified levels of imports or exports, a guarantee which would raise the problem of compatability with the free market system.

The United States could seek procedures to moderate short-supply problems, such as international consultations. While prior consultations among supplying and consuming countries with respect to a proposed export control action could result in leaks of information causing speculative pressure on prices and possible delays, consultations prior to the time when events have reached a crisis point, i.e. in the emergent period of shortages, could be useful as a means to head off distribution problems. To be able to implement international exchange of information arrangements, the Federal Government would need to have sufficient domestic information on supply.

In addition, in the context of other aspects of seeking reforms of the international economic system, procedures could be developed for settlement of disputes.

Supply-Related Provisions in the Trade Bill

Senators Mondale and Ribicoff have proposed amendments to the Trade Reform Act, the principle effect of which is to require the President to seek to negotiate international rules on questions of supply assurance and export controls, and the inclusion in international agreements of provisions authorizing multilateral sanctions for violation of the rules. The amendments also would authorize the President to retaliate against illegal or unreasonable foreign export restraints imposed by a foreign country by (1) increasing import restrictions on the products of that country; (2) restricting United States exports to the offending country; (3) denying it economic and military assistance, credits, and investment and credit guarantees; and (4) prohibiting or restricting U.S. investments in the country. The full text of these amendments is included at the end of this paper. (See Annex I).

It should be noted that these amendments will not fundamentally affect the GATT, the trade negotiations, the trade bill as passed by the House, or current legal authority. The GATT already contains rules of the type called for although these can be modified. The negotiations will deal with supply issues in any event. The trade bill already provides a basis for negotiating on specific export controls. Finally, the retaliatory authority granted is already contained in several existing laws.

A. The Negotiating Mandate

The Mondale amendments could have an important effect on United States negotiating policy on supply matters.

The primary international impact is that the United States would be required to negotiate on supply access rules and sanctions for their violation, whereas it is not currently under any legal obligation to do so:

> "Sec. 121(a) The President shall, as soon as practicable, take such action as may be necessary to bring trade agreements heretofore entered into, and the application thereof, into conformity with principles promoting the development of an open, nondiscriminatory, and fair world economic system, including (but not limited to):
>
> * * *
>
> "(7) the strengthening and extending the provisions of GATT or other international agreements to include rules governing access to supplies of food and raw materials, including rules governing the imposition of export controls and the denial of access to supplies of petroleum, raw materials, and manufactured products; and
>
> (8) the extending the provisions of GATT or other international agreements to authorize multilateral sanctions by contracting parties against member or non-member countries which deny equitable access to supplies of petroleum, raw materials, and manufactured products, and thereby substantially injure the international community."

1. Effect on the U.S. negotiating position

The first of the two negotiating requirements is very general. It does not specify the type of rules that must be negotiated. However, while United States interests as a supplying nation may not be served by many types of international rules on supply access and on the use of export controls, undoubtedly provisions could be sought that were fully compatible with paragraph (1) and United States interests.

The second paragraph of negotiating requirements poses greater, although not insuperable difficulties. The GATT already has a provision for multilateral sanctions, although it has never been used, in Article XXIII:2. While it may be undesirable to seek a multilateral sanction provision, and the second of the negotiating requirements in the Mondale amendments might be resisted by the Administration, it is not necessarily an intolerable provision in the bill.

However, it should be pointed out that rules on multilateral economic sanctions may not be negotiable, and in any event, such systems have never proved effective in the past. In addition it can be noted that the focus of the amendments is too narrow. In general, developing new international institutional arrangements and procedures might be more useful and more negotiable than seeking a highly detailed code of substantive rules. In addition, problems of forecasting world supply and demand should be addressed, and the desirability of exchange of information systems.

2. Domestic legal effect

Presumably no further Congressional action is necessary to approve amendments to existing agreements, where the amendments are designed to carry out the Congressional directives. Section 121 itself can be cited as an advance grant of authority to accomplish the objectives it contains.

But a reasonable argument can be made that the President could negotiate and implement the international rules called for in these amendments whether or not they are added to section 121. The President could enter into international agreements on these issues on the basis of either a combination of his Constitutional foreign affairs powers and his discretion in the exercise of delegated authorities, or the Congressional veto procedure contained in section 102.

Where the President has been delegated discretion to restrict imports (TRA section 301), restrict exports (the Export Administration Act), grant assistance (e.g., the Foreign Assistance Act of 1961, as amended), grant credits (e.g., the Export-Import Bank Act and the laws governing CCC credits, etc.), and restrict investment (the Trading with the Enemy Act), there is no clear legal bar to his using his Constitutional foreign affairs powers to agree with other countries to additional conditions in the common interest on the exercise of these authorities. Thus, for example, it is unlikely that the courts would strike down an Executive agreement requiring the U.S. to exchange information on export credit applications with other signatories to an agreement prior to the granting of such credits by the United States Government, although no condition of this kind is contained in the statutory basis for granting the credits. Likewise, entering into an international agreement to utilize export controls, or refrain from utilizing them, would need no further approval by Congress as long as the agreement was consistent with United States law.

The problems would be more political than legal. If Congress disapproved of what it might view as an attempt by the Executive to foreclose the Congress' options to change the domestic law, it could proceed to enact statutory amendments forcing the United States to breach the agreement or depriving the agreement of its domestic effect (the case of the Antidumping Code). A possible method of avoiding the political problem would be to submit the international agreement to Congress under the section 102 veto procedure, which, as discussed in the previous section of this paper, applies to agreements concerning export controls.

B. Retaliation Authority

The fourth Mondale amendment is designed to give the President the authority to apply sanctions against countries unreasonably or unjustifiably (illegally) restricting exports of food or raw materials to the United States. Because the President already possesses each of the discretionary authorities that this amendment (in the form of a new TRA section 302) grants, this amendment would have the least impact of the four. Thus, the need for it is questionable. Moreover, the threat of cut-offs of aid, credits or investment guarantees as retaliatory measures creates political hostility abroad and may be counterproductive especially when the public procedures required will highlight actions. These measures might be more productive if used more subtly. Another fault with the retaliatory provision is that it is made subject to a Congressional veto. Similar authorities in other statutes are not subject to a veto. This creates the potential for confusion and conflict in the future choice of authority on which to base an action.

However, the retaliatory authority is discretionary and may give a necessary political balance to the bill, between liberal trade emphasis and protectionism.

(1) Import restrictions

TRA section 301 already gives the President authority to restrict imports from a given country if it "engages in discriminatory or other acts or policies which are unjustifiable or unreasonable and which burden or restrict United States commerce". While the Chapter heading is "Foreign Import Restrictions and Export Subsidies", suggesting a narrower focus than one which would include foreign export restraint, the subject matter of the chapter is broader than its title suggests (it already includes antidumping and other unfair acts such as imports in violation of U.S. patents) and cannot be considered controlling. The language of section 301 is broad enough to allow retaliation against export restrictions and embargoes. The retaliation thus authorized may take the form of duties or other import restrictions.

(2) Export restrictions and embargoes

The Export Administration Act of 1969, as amended, (50 USC App. 2401 et seq.) provides the President with the authority to prohibit or curtail exports from the United States, its territories, and possessions, to the extent necessary to further significantly the foreign policy of the United States and to fulfill its international responsibilities. (The Act also authorizes the imposition of export controls for reasons of national security or domestic short supply).

The authority for imposing export controls, which has been delegated to the Secretary of Commerce, has seldom been invoked solely on the basis of foreign policy although foreign policy considerations are often involved in actions taken under the national security authority. Under the foreign policy authority, the controls need not be limited to a single commodity or a particular group of commodities but may apply to all articles, supplies and technical data originating in the United States. Moreover, in contrast to short supply controls which apply to all destinations, controls imposed under the foreign policy or national security authority could apply to a single country or a particular group of countries.

(3) Denial of assistance, credits and guarantees

A review of the principal statutes establishing Federal programs of economic and military assistance, credits, and guarantees indicates that the granting of these benefits is not mandatory. The President, or other administering officer could therefore refrain from making these benefits available to countries denying the United States access to food and raw materials. (A list is being prepared of statutory authorities for such action by the President or other official.)

(4) Restricting United States investments

Investments by United States citizens in countries denying access to raw materials can be prohibited or restricted under authority of the Trading with the Enemy Act, as amended (section 5(b) of the Act of October 6, 1917, 50 App. U.S.C. 5). The Act provides in relevant part:

> "(b)(1) During the time of war or during any other period of national emergency declared by the President, the President may, through any agency that he may designate, or otherwise, and under such rules and regulations as he may prescribe, by means of instructions, licenses, or otherwise--
>
> > (A) investigate, regulate, or prohibit, any transactions in foreign exchange, transfers of credit or payments between, by, through, or to any banking institution, and the importing, exporting, hoarding, melting, or earmarking of gold or silver coin or bullion, currency or securities, and
> >
> > (B) investigate, regulate, direct and compel, nullify, void, prevent or prohibit, any acquisition, holding, withholding, use, transfer, withdrawal, transportation, importation or exportation of, or dealing in, or exercising any right, power, or privilege with respect to, or transactions involving, any property in which any foreign country or a national thereof has any interest,
>
> by any person, or with respect to any property, subject to the jurisdiction of the United States; . . ."

A difference between Senator Mondale's section 302 and existing authority to regulate investments is that the Mondale amendment requires only a foreign illegal or unreasonable act restricting United States access to needed food or raw materials. The Trading with the Enemy Act requires the existence of, or declaration of, a national emergency. Because the most recent declarations of national emergency, the 1952 Korean War national emergency and the August 15, 1971 balance of payments national emergency would not be directly related to export access problems, it would be advisable for the President to declare a new national emergency on the basis of the foreign restrictions or embargoes on exports to the United States.

C. <u>Changing the purposes of the trade bill</u>

The "purposes" section of trade agreements legislation has in the past focused on United States export opportunities, economic growth, and economic relations with others. This precedent was followed by the House Ways and Means Committee when it deleted the longer more specific list of purposes included in the Administration's bill (H.R. 6767).

The first Mondale amendment adds equitable supply access to the bill's purposes:

> "The purposes of this Act are, through trade agreements affording mutual trade benefits--
>
> * * *
>
> (2) to insure equitable access to supplies of food or raw materials required for production of energy and orderly economic growth and development'
>
> * * * "

The effect of this change, although perhaps not specifically envisioned by its author, is to indicate a Congressional intent that the NTB negotiating authority contained in the bill be used as a basis for entering into and implementing (subject to a Congressional veto) specific agreements on access to supplies.

Section 102(b)(1) of the Trade Reform Act provides:

> "Whenever the President determines that any existing barriers to (or other distortions of) international trade of any foreign country or the United States are unduly burdening and restricting the foreign trade of the United States and that the purposes stated in section 2 will be promoted thereby, the President, during the 5-year period beginning on the date of the enactment of this Act, may enter into trade agreements with foreign countries or instrumentalities providing for the reduction or elimination of such barriers or other distortions." (emphasis supplied).

The general thrust of this provision, as presented by the Administration, was the reduction or elimination of import barriers and export subsidies. However, the inventory of nontariff barriers submitted to the Committee included foreign export restraints reported by U.S. diplomatic missions and U.S. business abroad. (See the NTB listings for Egypt, Kuwait and Lebanon in Briefing Materials on Foreign Trade and Tariffs, House Committee on Ways and Means, May, 1973, p. 59 ff.) Thus, while the key phrase in the NTB negotiating authority -- "barriers to (or other distortions of) international trade" -- is not defined in the bill, it is understood to include export restrictions.

The Mondale amendment to the purposes clause allows the NTB negotiating authority to be read in substance as follows:

> If existing U.S. or foreign trade barriers or distortions are burdening U.S. trade, and, inter alia, an agreement would promote assurance of equitable access to food or raw material supplies, the President may conclude agreements providing for the reduction or elimination of the trade barriers or distortions.

Conceivably this authority could be used as follows: Copper supplying countries lessen production to "artifically" increase export prices. The President negotiates an agreement whereby the copper producers guarantee specific quantities of annual production at negotiated prices, and the United States agrees to refrain from restricting ferrous scrap exports during the period of the agreement. This arrangement together with U.S. implementing orders is submitted to Congress pursuant to the veto procedure, and is not vetoed.

Section 102 can be used in this manner without the Mondale amendment. However, the amendment adds force to the position that specific supply assurance arrangements should be concluded under section 102. Agreements could be entered into on a commodity basis (where some form of assured United States supply or market access might be offered). General codes might also be negotiated requiring access to United States and foreign signatories' raw material supplies under agreed principles and procedures. However, as noted in the following section of this paper, TRA section 121 as amended by Senator Mondale gives an advance grant of authority to enter into and implement general rules relating to export restaint, access to supplies, and multilateral sanctions against export restrictions.

Senator Mondale's statement on the floor of the Senate on December 3, 1973 (S 21683-85) does not address itself to the effect of his amendment to the bill's purposes or the President's authority to negotiate and implement agreements. The issue could be clarified in the course of Senate consideration of the bill.

The Mondale amendments are symptomatic of important Senate concerns. It is likely, therefore, that some provisions on these subjects will be added to the trade bill by the Senate. As a political matter affecting TRA passage, Administration receptiveness to the concerns expressed by the amendments may be necessary.

Preliminary Conclusions

This paper outlines one approach to the problem of short supply in the context of the trade bill. It is of great importance that the trade bill receive prompt and favorable attention in the Senate. The supply issue is a weapon that can be used to delay or derail the bill. It will be claimed that the oil embargo and other short supply problems have made the bill out-dated.

In fact, while the emphasis in the House presentation of the bill was import barriers to trade and problems of subsidization , the House passed-bill together with existing legislation still answer the need for authority for the negotiations. The Mondale amendments do not confer substantial new authorities, however they do impose a requirement that would reduce our negotiating flexibility.

To be responsible to the Senate, and to assure that the trade bill contains an explicit negotiating mandate on supply problems, some provisions should be added to the bill. But these additions to the bill's section on purposes and on GATT amendments, should be made broader and more flexible. This will meet the need for negotiating credibility abroad, and will foster the closer relationship of Congressional and the Executive branch which is required to obtain implementation of the agreements resulting from the negotiations, without restricting the avenues open to negotiators to deal with short supply problems.

Progress in negotiating supply issues is necessary not only for domestic political reasons, but is in the U.S. national interest. While strict international rules governing all aspects of supply assurance and export controls is an unrealistic goal, and would limit our freedom of action to too great an extent, a framework of broad principles would be a good beginning.

Future Work

There is much to be learned about short supply problems. This process, and the processes of formulating United States positions, and negotiating international solutions are a long-term endeavor. However, the Administration's need for a constructive approach in the trade bill to short supply problems is an immediate problem.

This task force has only begun to draw together the information and policy options necessary to an informed and effective presentation to the Senate on the questions concerning short supply in the international negotiations. This process will continue, and subsequent reports will be issued to support the Administration's trade bill effort as well as to help to identify the longer range goals in international negotiations.

1e

Appendices

I. Text of the Mondale Amendments

II. Vulnerability to Artificially Created Shortages of Imports

III. Domestic Short Supply Problems*

IV. Pressures on Export Supplies*

V. The Relationships of Short Supply and Employment

*In preparation.

Text Of The Mondale Amendments To The Trade Reform Act (H.R. 10710)*

SEC. 2. STATEMENT OF PURPOSES

The purposes of this Act are, through trade agreements affording mutual trade benefits--

(1) to stimulate the economic growth of the United States and to maintain and enlarge foreign markets for the products of United States agriculture, industry, mining, and commerce; [and]

(2) to insure equitable access to supplies of food or raw materials required for production of energy and orderly economic growth and development; and

(3) [(2)] to strengthen economic relations with foreign countries through the development of fair and equitable market opportunities and through open and nondiscriminatory world trade.

SEC. 121. STEPS TO BE TAKEN TOWARD GATT REVISION; AUTHORIZATION OF APPROPRIATIONS FOR GATT.

(a) The President shall, as soon as practicable, take such action as may be necessary to bring trade agreements heretofore entered into, and the application thereof, into conformity with principles promotion the development of an open, nondiscriminatory, and fair world economic system, including (but not limited to):

* * *

(7) the strengthening and extending the provisions of GATT or other international agreements to include rules governing access to supplies of food and raw materials, including rules governing the imposition of export controls and the denial of access to supplies of petroleum, raw materials, and manufactured products.

(8) the extending the provisions of GATT or other international agreements to authorize multilateral sanctions by contracting parties against member or non-member countries which deny equitable access to supplies of petroleum, raw materials, and manufactured products, and thereby substantially injure the international community.

---

* Deletions are bracketed, additions are underscored.

TITLE III--RELIEF FROM UNFAIR
TRADE PRACTICES

CHAPTER 1--FOREIGN IMPORT AND EXPORT RESTRICTIONS AND
EXPORT SUBSIDIES

SEC. 301. RESPONSES TO CERTAIN TRADE PRACTICES OF
FOREIGN GOVERNMENTS.

(a) Whenever the President determines that a foreign country or instrumentality--

(1) maintains unjustifiable or unreasonable tariff or other import restrictions which impair the value of trade commitments made to the United States or which burden, restrict, or discriminate against United States commerce,

(2) engages in discriminatory or other acts or policies which are unjustifiable or unreasonable and which burden or restrict United States commerce, or

(3) provides subsidies (or other incentives having the effect of subsidies) on its exports of one or more products to the United States or to other foreign markets which have the effect of substantially reducing sales of the competitive United States product or products in the United States or in those other foreign markets,

the President shall take all appropriate and feasible steps within his power to obtain the elimination of such restrictions or subsidies, and he--

(A) may suspend, withdraw, or prevent the application of, or may refrain from proclaiming, benefits of trade agreement concessions to carry out a trade agreement with such country or instrumentality; and

(B) may impose duties or other import restrictions on the products of such foreign country or instrumentality for such time as he deems appropriate.

(b) In determining what action to take under subsection (a), the President shall consider the relationship of such action to the international obligations of the United States and to the purposes stated in section 2. Any action taken under subsection (a) may be on a nondiscriminatory treatment basis or otherwise; except that, in the case of a restriction, act, policy, or practice of any foreign country or instrumentality which is unreasonable but not unjustifiable, the action taken under subsection (a) shall be taken only with respect to such country or instrumentality.

(c) The President in making a determination under this section, may take action under subsection (a)(3) with respect to the exports of a product to the United States by a foreign country or instrumentality if--

(1) the Secretary of the Treasury has found that such country or instrumentality provides subsidies (or other incentives having the effect of subsidies), on such exports;

(2) the Tariff Commission has found that such exports to the United States have the effect of substantially reducing sales of the competitive United States product or products in the United States; and

(3) the President finds that the Antidumping Act, 1921, and section 303 of the Tariff Act of 1930 are inadequate to deter such practices.

(d) The President shall provide an opportunity for the presentation of views concerning the import restrictions, acts, policies, or practices referred to in paragraph (1), (2), or (3) of subsection (a). Upon request by any interested person, the President shall provide for appropriate public hearings with respect to such restrictions, acts, policies, or practices after reasonable notice, and he shall provide for the issuance of regulations concerning the conduct of hearings under this subsection and subsection (e).

(e) Before the President takes any action under subsection (a) with respect to the import treatment of any product--

(1) he shall provide an opportunity for the presentation of views concerning the taking of action with respect to such product,

(2) upon request by any interested person, he shall provide for appropriate public hearings with respect to the taking of action with respect to such products, and

(3) he may request the Tariff Commission for its views as to the probable impact on the economy of the United States of the taking of action with respect to such product.

SEC. 302. RESPONSES TO CERTAIN EXPORT PRACTICES OF FOREIGN GOVERNMENTS

(a) Whenever the President determines that a foreign country or instrumentality imposes unjustifiable or unreasonable restrictions, including quotas or embargoes, on the export to the United States of food or raw materials required for the production of energy or for orderly economic growth, he shall take all appropriate and feasible steps within his power to obtain the elimination of such restrictions, and he may take action under section 301 with respect to such country or instrumentality and its products, and, in addition, he may--

(A) impose restrictions, including quotas and embargoes, on the export of United States products to such country or instrumentality,

(B) deny economic and military assistance and participation in any program of the Government of the United States which extends credits, credit guarantees, or investment guarantees, to such country or instrumentality, and

(C) prohibit or restrict investments, direct or indirect, in such country or instrumentality by United States citizens and domestic corporations.

(b) In determining what action to take under subsection (a), the President shall consider the relationship of such action to the international obligations of the United States and to the purposes stated in section 2.

(c) The President shall provide an opportunity for the presentation of views concerning the export restrictions referred to in subsection (a). Upon request by any interested person, the President shall provide for appropriate public hearings with respect to such restrictions after reasonable notice, and he shall provide for the issuance of regulations concerning the conduct of hearings under this subsection and subsection (d).

(d) Before the President takes any action under subsection (a) with respect to any foreign country or instrumentality--

(1) he shall provide an opportunity for the presentation of views concerning the taking of any such action,

(2) upon request by any interested person, he shall provide for appropriate public hearings with respect to the taking of any such action, and

(3) he may request the Tariff Commission for its views as to the probable impact on the economy of the United States of the taking of any such action.

SEC. 303 [302]. PROCEDURE FOR CONGRESSIONAL DISAPPROVAL OF CERTAIN ACTIONS TAKEN UNDER SECTION 301 or 302.

(a) Whenever the President takes any action under subparagraph (A) or (B) of section 301(a), or under subparagraph (A), (B), or (C) of Section 302(a), he shall promptly transmit to the House of Representatives and to the Senate a document setting forth the action which he has so taken, together with his reasons therefor.

(b) If, before the close of the 90-day period beginning on the day on which the copy of the document referred to in subsection (a) is delivered to the House of Representatives and to the Senate, either the House of Representatives or the Senate adopts, by an affirmative vote of a majority of those present and voting in that House, a resolution of disapproval under the procedures set forth in section 151, then such action under section 301(a) or section 302(a), as the case may be, shall have no force and effect beginning with the day after the date of the adoption of such resolution of disapproval.

SEC. 151. RESOLUTIONS DISAPPROVING THE ENTERING INTO FORCE OF TRADE AGREEMENTS ON DISTORTIONS OF TRADE OR DISAPPROVING CERTAIN OTHER ACTIONS.

(b)(C) Conforming technical amendment.

SEC. 152. SPECIAL RULES RELATING TO CONGRESSIONAL DISAPPROVAL PROCEDURES.

Conforming technical amendments.

1g

VULNERABILITY TO ARTIFICIALLY CREATED SHORTAGES

The restrictions placed by the Arab countries on oil exports and the recent price increases by virtually all oil exporting countries have raised the question whether similar measures might be taken against the United States and other consumer countries by the producers of other commodities. This paper examines the conditions which may exist over the next 3-5 years with respect to certain essential commodities and leads to the conclusion that there are several non-fuel commodities which must be imported and which are susceptible to concerted action by the producing countries.

The United States is almost entirely dependent on foreign sources of supply for its requirements of the following critical mineral and non-mineral materials: Platinum, Sheet Mica, Chromium, Strontium, Cobalt, Columbium, and Tantalum. Foreign supply sources account for 3/4 or more of the following: Asbestos, Aluminum(Bauxite), Bismuth, Castor Oil, Cordage Fibres, Fluorspar, Manganese, Mercury, Nickel, Opium, Quinine, Natural Rubber, Shellac, Vegetable Tannin Extracts, Tin, and Titanium. Over 1/2 of our supply comes from foreign sources in the case of Gold, Potassium, Silver, Tungsten, and Zinc. We are also dependent on foreign sources for 25% or more of our requirements for Antimony, Barium, Cadmium, Iron Ore, Selenium, and Vandium.

Western Europe and Japan, however, are in a less advantageous position than is the United States because of a greater reliance on imports; such reliance could increase U. S. vulnerability.

With the exception of iron ore and aluminum (bauxite), none of the named commodities plays as commanding a role in the U. S. economy as do oil or other energy sources. This fact should not, however, lead to the erroneous conclusion that shortages of these commodities will not have considerable impact on our economy. For instance, shortage of many of the alloying metals for steel (e.g., cobalt, chromium, manganese, nickel, etc.), could have serious consequences for many of the capital steel industries. This is due to lack of suitable substitutes in critical applications. Maintenance of an adequate national stockpile is some insurance against just such disruptions of supply.

The possibility and effectiveness of restricting supplies of these commodities by the producing countries depend on such factors as

(1) the compatibility and unity of purpose of the foreign producing countries, (2) the possibility of quickly expanding production in the consumer countries or obtaining supplies in other countries not cooperating in a general program of boycott or price increases, (3) the ability of producing countries to withhold the product from the market without seriously jeopardizing their own financial stability, (4) the susceptibility of a particular commodity to substitution, and (5) the existence of stockpiles in the consumer countries.

While the foreign producing countries, especially the poorer countries, may not be able to impose an embargo without risking their own financial ruin, they may be able to create short-supply situations which would push prices up; they could, thus, maximize their gain by reducing, but not embargoing the available supply. The higher cost of oil and petrochemicals decreed by the Organization of Petroleum Exporting Countries (OPEC) and the higher prices of manufactured goods which result therefrom will most likely drive the less developed countries, which must import these goods, to demand higher prices for their exports of raw materials.

If the OPEC countries establish a special fund to compensate the less developed countries for their higher oil prices, they might also use such a fund to give financial support to LDC efforts to force higher prices by creating scarcity. There have been reports that Algeria, Libya and Saudi Arabia might finance the stockpiling by Zaire and Zambia of one-year's production of copper. Western Europe and Japan obtain 60-80% of their copper from these sources, and over 60% of the world's cobalt derives as a by-product of Zaire's copper production. There have also been unsubstantiated reports of Zaire-PRC negotiations for the sale of the entire Zairian copper output to the PRC on a long-term basis.

The following specific conclusions have been reached with regard to the commodities listed at the outset:

Aluminum:

Import dependence: U.S. - 89% for bauxite and alumina
10% for metal
W. Europe - 51% for bauxite
Japan - 100% for bauxite

Major sources for U.S.: Australia, Jamaica, Surinam,
Guyana (bauxite and alumina).
Canada, Norway (metal)

The bauxite producing countries recently met in Belgrade and will meet again in February in Conakry to discuss forming an organization which could simulate OPEC and its recent operations. Guyana and Jamaica already have begun nationalization of Canadian and U.S.-owned mines and alumina plants.

New technology is being tested to produce alumina from certain clays found in abundance in Arkansas, Georgia and other areas. Price increases for the imported materials may make these new processes economically feasible, although it would take several years before production could satisfy domestic demand.

Legislation has recently gone into effect to release 420,000 tons of metal from the GSA stockpile; the new stockpile objective for bauxite would reduce a 7 months' supply to a 2-1/2 months' supply.

<u>Chrome Ore</u>

Import dependence:	U.S.	-	100%
	West Europe	-	
	Japan	-	

Sources for U.S.: USSR, South Africa, Turkey, Philippines, Rhodesia

Disruption of normal supply channels in a commodity and the ensuing price effect are well illustrated when comparing prices of USSR chrome ore in 19~~4~~68 of about $39 per long-ton with prices in 1971 of $70 followed by a drop to $56. Principal uses are in superalloy steels, chemicals, and high-temperature refractories for which there are some, but not always, satisfactory substitutes.

Present U. S. stockpile contains about 5 years of supply with a proposed target inventory of 5 months.

Manganese Ore:

Import dependence U.S.	-	97%
W. Europe	-	
Japan	-	

Sources for U.S.: Gabon, Brazil, South Africa, and Zaire

Other producers: India, Morocco

South Africa, Gabon, and India have been able individually in the last round of annual contract negotiations to demand and obtain substantially higher prices than those of previous years. Our most effective countermeasure has been the release of manganese ore from the GSA stockpile, which resulted in some scaling down of the original demands. While the stockpiles contain 3 years supply, the objective has been reduced to 5 months requirement.

Copper:

Import dependence:	U.S.	-	2%
	W. Europe	-	89%
	Japan	-	83%

Major producers: U.S., USSR, Zaire, Zambia, Canada, Chile, and Peru

The United States has large reserves of copper and could become self-sufficient under the impetus of increased prices; the Europeans and Japan are in an exposed position. Unfortunately, small percentage changes in current supplies have repeatedly wreaked havoc with consuming industries and prices. A producer combine, CIPEC, already exists, of which Chile, Peru, Zaire and Zambia are members. So far it has been mainly a study group, but the potential for economic disruption exists not only from this source but also from possible interference by the Arab oil countries.

Natural Rubber:

Import dependence:	U.S.	-	100%
	W. Europe	-	100%
	Japan	-	100%

Sources for U. S.: Malaysia, Indonesia, Thailand, Liberia

Other Producers: Sri Lanka, Nigeria

Both consumer countries (including the United States) are members and producers of an International Rubber Study Group of long standing. More recently, the producers have formed an association in the hope of raising what has been an alarmingly low price caused by the competition from synthetic rubber. Although the price of natural rubber has been buoyed up by the constraints put on synthetic by the oil shortage and boycott (and the price of synthetic will rise due to higher costs of petrochemical feedstocks), the natural rubber producers will in the long run have to consider the vulnerability of their product to substitution by synthetic rubber and plastics.

Tin:

Import dependence:	U.S.	-	83%
	W. Europe	-	100%
	Japan	-	100%

Major producers: Malaysia, Bolivia, Thailand, Indonesia

Tin is used mainly by the food canning industry in the form of tin-plated steel and, increasingly, by the electrical and automotive industries in the form of solder and as an alloy for bearing materials. The producers are a compatible group and on good terms politically with the consumer countries. An International Tin Council includes both consumer and producer(although the United States is only an observer and not a member) and attempts to prevent excessive price fluctuations by operating a buffer stock. Tin is vulnerable to substitution, which puts a check rein on producers' ambitions to raise prices. However, at present a combination of high demand, some production difficulties, currency revaluations and some speculation has pushed prices to an abnormally high level despite disposal from the buffer stock and the GSA stockpile. The latter contains a 5-year supply (1-year world supply) but Congress has been requested to approve a reduction to less than a one-year U. S. supply.

Iron Ore:

Import dependence:	U.S.	- 30%
	W. Europe	- 40%
	Japan	- 98%

Major producers: USSR, U.S., Australia, France, China, Canada, Brazil, Venezuela, India

The United States could be self-sufficient by mining lower-grade ores if price boosts increase the profitability. An informal "iron ore club," composed of Brazil, Chile, Liberia, India, Peru and Venezuela, has held several meetings, but lacks the support of other major iron ore producers, including Canada and Australia, who can supply most or all of their own needs and produce exportable surpluses.

Total world production capacity is 20% above record 1973 demand. Japan is most exposed to a producers combine, but 60 % of its imports come from Australia (44%) and India (16%); the latter is highly dependent on the Japanese market.

Supplies of less well-known commodities, which are vital for some industrial processes, are obtained by the United States from countries which in some instances might form producer groups for the purpose of obtaining better prices. GSA presently has stocks of these materials equivalent to at least one-year's U. S. consumption, but the revised stockpile objectives would reduce the quantities substantially below this level and in some cases to zero.

Columbium Ore Concentrates:

Import dependence: U.S. - 100%

Sources: Brazil, Canada, Nigeria, Malaysia

Needed for production of high-quality steel and electronic capacitors.

Fluorspar:

Import dependence: U.S.: 80%

Sources: Mexico, Italy, Spain, South Africa

Needed for production of steel, aluminum and chemicals.

Quinine:

Import dependence: U.S.: 100%

Sources: Indonesia, Zaire, India, Latin America

Pharmaceutical use.

Tantalum:

Import dependence: U.S.: 100%

Sources: Nigeria, Malaysia, Australia, Thailand, Brazil

Needed for electronic components, nuclear reactors, space power systems and turbines.

U. S. Stockpile Policy. In order to develop a realistic policy, the Administration should first determine the commodities for which adequate alternate sources are not available. Then review should be given to the stockpile objectives established in April 1973 to ensure that an amount equivalent to one-year's total U. S. requirements (military and civilian) is retained. This could be done by defining a "strategic stockpile quality" as that amount required to avoid economic dislocations in the event of an emergency or other interruption of supplies due to external factors.

In this connection, it might be advisable to charge the Interagency Subcommittee on Minerals and Materials of the Domestic Council (membership list enclosed) with also reviewing stockpile objectives.

Stockpiling by Other Countries. Other developed countries do not have stockpile programs similar to that of the United States although some of them have shown some interest. Japan has considered the possibility and there have been persistent reports that abnormally high Japanese purchases of tin in Penang were destined for a stockpile. French officials have discussed stockpile operations with State and GSA. Efforts to transfer some of our GSA stockpile materials to the Federal Republic of Germany in connection with the offset agreements have not succeeded because the German Government has not been willing to provide the necessary funds: difficult problems also arose in transferring to the German Government our commitments concerning disposal policies which would not disrupt the normal marketing of these products by the producing countries. The latter problem could be overcome by purchases of these materials by other developed countries from GSA within the framework of the GSA disposal programs or by purchases directly from the producers as long as these materials are obtainable at a reasonable price. In either case, the United States would have no responsibility with regard to the stockpile disposal policies of the other countries.

Atomic Energy Materials. Uranium is at present plentiful in the United States and elsewhere, but it is expected that there will be global shortage by the year 2000. The United States, assumed to be the largest producer, has maintained an import ban in order to encourage domestic exploration, while other countries have embargoed exports to conserve their supplies.

Thorium is plentiful in the United States, as well as in Canada, South Africa, India, Egypt and Brazil.

Heavy water can be produced by any country willing and able to make the substantial capital investment required. The United States is self-sufficient, and Canada is developing sufficient production capacity to permit substantial exports.

The Relationship of Short Supply and Employment

The short-supply problem can affect employment in several ways. Labor can be either a victim of the shortage problem or a causative factor. Employment may be also adversely affected by either (a) U.S. export controls, or (b) limits on access to foreign markets.

Shortages of U.S. agricultural products have not created direct employment problems.

Labor can add to or cause a short-term shortage problem to the extent strikes in particular industries result. Witness England's current difficulties. Key industries in which contracts will be negotiated this year include the aluminum industry (40,000 workers), the coal industry (80,000 workers or 90% of all coal miners), and the longshore industry (43,000 workers on the East and Gulf coast). A strike in either the aluminum or longshore industries could exascerbate existing problems in some sectors of the economy although such strikes would probably have little long-term impact on the economy as a whole. A strike by the United Mine Workers could have serious ramifications on the energy situation.

Evidence on the impact of labor disputes on the economy is contained in a DOL study of the effect of strikes

in the longshore industry. The major conclusion was that such strikes did not have a major impact on the economy as a whole, although particular sectors were adversely affected.

Export controls could affect employment if the controls cause a cutback in total domestic production. Controls are most likely to be put on products in excess demand where production is operating close to capacity. In this case controls would not affect total employment, but rather would redistribute consumption from the foreign market to domestic markets.

Limits on access to foreign markets could adversely affect employment by reducing availability of particular production inputs. Lack of needed raw materials may force a firm to cutback on production and thus employment.