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THE DEPARTMENT OF STATE BULLETIN

Volume LXXIII • No. 1887 • August 25, 1975

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U.S. GOVERNMENT PRINTING OFFICE
Superintendent of Documents

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THE DEPARTMENT OF STATE BULLETIN

VOL. LXXIII, No. 1887

August 25, 1975

The Department of State BULLETIN is a weekly publication issued by the Office of Media Services, Bureau of Public Affairs, provides the public and interested agencies of the government with information on developments in the field of U.S. foreign relations and on the work of the Department and the Foreign Service.

The BULLETIN includes selected press releases on foreign policy, issues by the White House and the Department, and statements, addresses and news conferences of the President and the Secretary of State and other officers of the Department, as well as special articles on various phases of international affairs and the function of the Department. Information is included concerning treaties and international agreements to which the United States is or may become a party and on treaties of general international interest.

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For sale by the Superintendent of Documents
U.S. Government Printing Office
Washington, D.C. 20402

PRICE:

52 issues plus semiannual indexes,
domestic \$42.50, foreign \$53.15
Single copy 85 cents

Use of funds for printing this publication approved by the Director of the Office of Management and Budget (January 29, 1971).

Note: Contents of this publication are not copyrighted and items contained herein may be reprinted. Citation of the DEPARTMENT OF STATE BULLETIN as the source will be appreciated. The BULLETIN is indexed in the Readers' Guide to Periodical Literature.

Department Urges Authorization of U.S. Participation in the Financial Support Fund of the OECD

*Statement by Charles W. Robinson
Under Secretary for Economic Affairs*¹

I welcome this opportunity to testify in support of the President's request for legislation to authorize U.S. participation in the Financial Support Fund.²

The Financial Support Fund is an integral part of our overall strategy to deal with the economic consequences of the severe oil price increases. As such, it is a milestone of international economic cooperation.

As you know, Secretary [of the Treasury William E.] Simon signed the Financial Support Fund Agreement on April 9 in Paris after several months of intensive negotiations. The Fund is designed to provide balance-of-payments support to participating members of the Organization for Economic Cooperation and Development (OECD) who may be faced with needs which cannot adequately be met through the use of normal means of financing. Each participating member has a quota which determines its right to borrow, its financial obligations, and its voting power. Subject to the conditions of the Fund, any eventual loans would be made on market-related terms out of funds obtained either through direct loans or through guarantees of loans by other participants.

The Treasury Department took the lead-

ership in working out the financial arrangements for the Fund with our partners abroad. Secretary Simon is therefore the best source of advice on the financial aspects. I wish to concentrate on the importance of the Financial Support Fund to our foreign policy objectives and, in particular, to our overall strategy in dealing with the international energy problem.

The steep oil price increases in late 1973 and early 1974 were a severe economic shock to the world's economy. They substantially reduced the real income of the oil-importing countries, drained away purchasing power thus contributing to world recession, exacerbated already serious worldwide inflation, and greatly magnified the problems of international payments imbalance. In so doing, they challenged the wisdom and ingenuity of our economic policymaking to minimize the shortrun damage done to the world economy and to set in train economic policies that would help meet the longer term adjustment problems that had been created.

However, these arbitrary and sudden price increases also presented a broader challenge to the industrialized countries allied in the OECD. These countries as a whole had become highly dependent on imported oil, largely from a few major oil exporters. Now they were faced with a sudden shock to their economies and a rapid transfer of financial power to the oil-exporting countries. The challenge then arose: Would these allied countries be able to maintain the political and economic cooperation that had been the

¹ Made before the Senate Committee on Foreign Relations on July 30. The complete transcript of the hearings will be published by the committee and will be available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

² For President Ford's letter of June 6 transmitting the legislation, see BULLETIN of July 14, 1975, p. 81.

foundation of their remarkable record of stability and rising standards of living in the post-World War II years? Or would they yield to the temptation to try to meet their economic problems at the expense of each other and in ways which would undermine their economic and political cohesion?

For if economic cooperation was an important foundation of postwar economic prosperity, greatly intensified cooperation is an indispensable precondition to a successful economic response to the oil crisis. And I need remind no one on this committee that the world's current international political problems are such that any weakening of Western political cohesion would have serious consequences.

Redistribution of Oil Revenues

For countries under severe balance-of-payments pressure, the temptations not to cooperate are great. The industrialized countries, accustomed to running a significant surplus on current transactions, have collectively been thrust into large deficit as a result of the higher costs for imported oil. In 1974, the OECD countries ran a current account deficit of nearly \$35 billion. In 1975, the amount will be lower, largely as a result of the recession, but still large.

For the oil-consuming countries as a whole, there is no problem of obtaining financing for these deficits. The counterpart financial surpluses of the OPEC countries [Organization of Petroleum Exporting Countries] must return as capital flows to the rest of the world. There is no alternative.

For individual countries, however, the problems for financing can be severe. Surplus oil revenues will be invested in countries and currencies according to OPEC financial (and perhaps political) preferences. The resulting pattern will not correspond to the financing needs of the individual countries. For a number of countries as well, these new oil-related deficits have occurred on top of already weak balance-of-payments positions.

In the main, the problems of redistribut-

ing these funds can be left to the private financial markets. These markets have shown a remarkable resiliency and adaptability in efficiently dealing with the surge of new funds, distributing them to the countries in accordance with their balance-of-payments needs. Also very important has been the more flexible exchange rate arrangements that were in place when the oil shock occurred.

Although these market arrangements have handled the problem so far, we cannot be confident that this will continue to be the case as OPEC's financial surplus mounts or under all possible political and economic contingencies. We cannot be sure that countries will be able to obtain funds in adequate amounts and on reasonable terms. In particular, the market may, in the case of some countries, feel that it has become overexposed in terms of lending to an individual borrower. And the market may not be able to cope with sudden shifts in OPEC investment preferences. Should we not guard against these risks we could suffer the following consequences:

—Countries may try to adjust their payments positions through restrictions on their trade and payments, thus shifting the burden elsewhere and reducing trade and employment.

—Countries may alternatively feel forced to take draconian action to deflate their economies, creating high levels of unemployment and consequent political instability at home and trade and employment losses for others as well.

—Countries may feel forced to go to oil-exporting countries for emergency financial assistance. Not only might economic terms tend to be unfavorable, but political conditions might well be attached, relating, for example, to support for terms of settlement in the Middle East situation.

—Finally, countries dependent on OPEC countries for financial assistance may feel unable to participate fully in cooperative energy programs, particularly if these are viewed as "confrontational" by the oil producers.

None of these risks need be realized if the OECD countries undertake now to cooperate in case of severe financial need.

Objectives of the Fund

Therefore we see an urgent requirement for the Financial Support Fund to achieve the following fundamental objectives:

1. To assure that countries will not be driven to unilateral restrictive measures that would be destructive of the international economic system and habits of cooperation that have been so painstakingly built up over the past 30 years.

2. To promote appropriate domestic and international economic policies fundamental to economic prosperity and thus to political stability and good relations.

3. To encourage full international cooperation in energy policies to reduce our vulnerability to foreign supply interruptions, to conserve energy, and to develop alternative energy sources. Such policies are essential to reduce our future vulnerability and preserve maximum independence for foreign policy decisions. They offer the best hope for obtaining reasonable oil prices. They are also essential to serve as a basis for proceeding to a productive dialogue with the oil-exporting countries.

4. To instill the confidence that will promote a smoothly working international financial system free from fears of financial collapse or artificial payments restrictions.

5. Finally, to reinforce the structure of economic and political cooperation, which is both an objective in itself and an essential precondition to an effective foreign policy.

Basic Features of the Fund

We believe that the basic features of the Financial Support Fund are the right ones for these objectives in the present situation:

—It is a temporary facility designed to meet a temporary need. Its lending authority will lapse two years after it comes into existence although it could of course be extended by mutual agreement if deemed necessary. The need is temporary because the

large balance-of-payments surpluses of the oil exporters, which are the source of the problem, are temporary—although we cannot be sure how long they will exist. High energy prices and government policies will encourage conservation and increased energy production elsewhere, which will cut into oil-exporting revenues. Simultaneously, the oil-exporting countries will be rapidly expanding their demands for foreign goods and technology, increasing their payments abroad. We expect the cumulative OPEC surplus to grow more slowly and perhaps level off by the early 1980's at \$200–\$250 billion in 1974 dollars.

—The Financial Support Fund does not attempt to replace the private market or other existing official mechanisms. Rather, it provides a valuable supplement to them. In fact, we expect that the existence of the Fund will help to bolster the confidence of private markets and thereby could conceivably make recourse to the Fund unnecessary. The IMF [International Monetary Fund] will continue to play an important role in balance-of-payments finance in the present situation and, as the principal permanent institution for international financial cooperation, long after the end of the current exceptional need. The central bank swap network will continue to provide short-term support for exchange operations. Regional facilities such as the EC [European Community] medium-term borrowing facility can make a useful contribution. Before the Financial Support Fund would be drawn upon, other appropriate sources would be tapped to the maximum reasonable extent.

—The Financial Support Fund does not rely on the good will or cooperation of outside countries such as the oil-exporting cartel. Since these countries must in any case place their excess revenues in Western capital markets, these can be tapped at the option of the participating countries.

—The Fund requires countries to avoid restrictive trade and payments measures, and a country facing foreign exchange pressures must take appropriate domestic measures to correct its financial problems. Thus it can not and will not be used to finance

countries following imprudent or wasteful policies. I can assure you that we intend to make this provision of the agreement effective.

—The Financial Support Fund specifically sets forth among its purposes the promotion of policies to promote increased production and conservation of energy and requires that any member receiving assistance through the Fund be following policies consistent with these purposes. Therefore it offers positive incentive to participation in international cooperative energy efforts.

—It is not a concessional or aid-type program. It is a mutual support facility, with every member having the possibility of receiving support. Loans will be provided only on terms which reflect borrowing costs in the market. There is no subsidy involved aside from the assumption of risk.

—Finally, the Financial Support Fund provides an equitable means of sharing financing burdens and risks among the participating countries, all of whom have a large stake in the achievement of the objectives of the Fund.

The Fund and the OECD

It is particularly appropriate that the Financial Support Fund is to be associated with the OECD in Paris. The OECD has its roots in the organization set up just after World War II to coordinate European recovery efforts with the help of U.S. assistance provided through the Marshall plan. The OECD has had long and fruitful experience as an important instrument of economic cooperation among the Western

industrialized countries. It is now being called upon to meet current critical challenges just as its predecessor met those of the postwar years. The OECD launched the new International Energy Agency, and now the proposed Financial Support Fund, which its Secretary General independently proposed along with Secretaries Kissinger and Simon.

Mr. Chairman, it may be that the international financial system, bolstered by the Financial Support Fund, will work so smoothly that we will never have to use the Fund. We all hope so. But this does not mean that the Fund would have been unnecessary. And if the need does arise, we will be very grateful that we had the foresight to establish it. For if this need were to arise and not be met, the consequences could be disastrous. It may be that we could meet the challenge in an ad hoc fashion. But the conditions surrounding such an ad hoc solution would not be so effective or so equitable. And it is possible that we could fail to avert the consequences that we fear.

On the other hand, when the Financial Support Fund is in place, we will have strengthened the confidence in private markets and economic stability and made possible an effective cooperative international energy policy; and we will have strengthened the cooperation among allied countries that will surely be required as we move on to meet other economic and political challenges.

Mr. Chairman, and members of the committee, I hope that you will join us in seeking prompt congressional action to authorize U.S. participation in the Financial Support Fund.

Department Discusses Situation in South Africa and Namibia

Following are statements by Nathaniel Davis, Assistant Secretary for African Affairs, and William B. Buffum, Assistant Secretary for International Organization Affairs, made before the Subcommittee on Africa of the Senate Committee on Foreign Relations on July 24.¹

STATEMENT BY ASSISTANT SECRETARY DAVIS

I am pleased to join with Assistant Secretary Buffum in representing the Department of State before the subcommittee which today is considering U.S. policy toward South Africa and Namibia. We consider that South Africa and Namibia are separate, although related, issues; and therefore I propose to discuss first South Africa and then Namibia.

The United States strongly disapproves of the South African Government's policy of apartheid, or "separate development," and seeks to encourage the South African Government to end it and establish the basis for a just society and government. Our policy derives from our heritage as a multi-racial society, our interests elsewhere in Africa, and our efforts to promote respect for human dignity throughout the world. The United States has adopted a policy toward South Africa of imposing restraints in our bilateral relations and communicating with its government and people, making clear our nonacceptance of apartheid.

Foremost among the restraints has been our careful adherence over the past 12 years to a comprehensive arms embargo, encom-

passing all military equipment. In addition, since 1967 we have banned visits by U.S. Navy ships to South African ports, except in cases of emergency.

Other restraints in our relations concern U.S. investment and trade. We neither encourage nor discourage private American investment. We seek to insure that prospective U.S. investors are fully aware of the political, economic, and social problems relating to investment in South Africa. We do not engage in the full range of trade promotion activities in South Africa that we undertake in other countries. Only limited Export-Import Bank facilities are available for trade with South Africa, and direct loans are specifically prohibited.

In implementation of our policy of communication without acceptance, we maintain our diplomatic mission in South Africa; we engage in systematic contacts with all elements of South Africa's population; we carry on an active cultural and educational exchange-of-persons program; and we encourage American firms located in South Africa to adopt enlightened employment practices for all of their employees.

Within South Africa there is at present much talk of significant changes taking place in the apartheid system. The recent opening of the Nico Malan Theater in Cape Town to all races, government plans to permit certain blacks to buy their own homes—but not land—in the black townships near urban centers, and the participation of blacks in some international sporting events are cited as examples of change. Certain aspects of what is called petty apartheid are being abolished, but we do not see substantial evidence that the South African Government has changed or intends to change the

¹ The complete transcript of the hearings will be published by the committee and will be available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

fundamentals of apartheid. Prime Minister Vorster has declared that the whites will continue to rule South Africa and that separate development (apartheid) will remain the bedrock of his government's racial policy.

Since South African leaders intend to maintain their basic policies, it is our view that the possibility of future racial conflict in southern Africa remains real. We therefore believe that our present policy of restraints and communication without acceptance of apartheid should be maintained and that it offers the most effective means at our disposal to approach the problems of southern Africa.

Turning to Namibia, U.S. policy toward that international territory is based upon our belief that the people of Namibia should be allowed to exercise freely their right of self-determination. Given our support for U.N. General Assembly Resolution 2145 of October 27, 1966, which terminated South Africa's League of Nations mandate over Namibia, and for the conclusions of the 1971 International Court of Justice advisory opinion regarding Namibia, which upheld the legality of U.N. General Assembly Resolution 2145, we take the view that South Africa is illegally administering Namibia and should withdraw from the territory, which is properly the responsibility of the United Nations.

We have repeatedly made clear to the South African Government our deep concern over violations of human rights in the territory. For example, last month we sought to persuade the South African Government to revoke or stay the expulsion from Namibia of the Anglican Suffragan Bishop of Damaraland, Richard J. Wood, and his U.S.-citizen wife. We also expressed our displeasure to the South African Government when Mrs. Wood was evicted from the territory when she refused to obey the expulsion order.

Because of South Africa's illegal administration of Namibia and South Africa's refusal to acknowledge U.N. responsibility for this international territory, the U.S. Government has, since May 1970, officially discouraged private American investment in the

territory and has denied Export-Import Bank guarantees and other facilities for trade with Namibia. Since May 1970, we have also warned potential U.S. investors that we would withhold U.S. Government protection of U.S. investments made on the basis of rights acquired through the South African Government after the 1966 termination of the mandate against the claims of a future lawful government in Namibia. We have encouraged the few American firms with investments in Namibia to conform their employment practices to the Universal Declaration of Human Rights.

Since the Portuguese coup in April 1974, there appears to have been some movement away from political deadlock in Namibia. South African leaders have repeatedly asserted that South African Government policy in Namibia is aimed at preparing the people of the territory to exercise their right of self-determination. However, the South African Government has not stated when and under what conditions the exercise of self-determination will take place. It maintains that the peoples of Namibia, and not South Africa nor the United Nations, must determine their own future and that all options, including unitary independence, will be open to them.

The South African Government, acting through the ruling white National Party of South-West Africa, called in September 1974 for the leaders of the various ethnic and tribal groups to meet together to discuss the future of Namibia. These constitutional talks have not yet been held, as efforts to persuade all the various groups to take part have apparently not been successful so far. However, there are strong indications that the talks will begin in September. Political party leaders who are not also ethnic and tribal group leaders will not be permitted to take part in the talks. Therefore political parties, including the South-West Africa People's Organization (SWAPO), recognized by the OAU [Organization of African Unity] and the United Nations as the legitimate representative of the Namibian people, will be excluded from the talks.

At present black opposition to South Afri-

can rule in Namibia is somewhat divided on some issues. SWAPO leaders and other more militant black nationalists favor the immediate establishment of a majority-rule unitary state and reject participation in the constitutional talks unless a number of conditions, such as the release of Namibian political prisoners, are met. Some leaders of minority ethnic and tribal groups are concerned at the possibility of domination of an independent Namibia by the numerically superior Ovambo tribe from which SWAPO draws its support.

Regarding the future of Namibia, we hold the following views:

a. All Namibians should within a short time be given the opportunity to express their views freely and under U.N. supervision on the political future and constitutional structure of the territory;

b. All Namibian political groups should be allowed to campaign for their views and to participate without hindrance in peaceful political activities in the course of self-determination;

c. The territory should not be fragmented in accordance with apartheid policy contrary to the wishes of its people; and

d. The future of Namibia should be determined by the freely expressed choice of its inhabitants.

We have expressed these views to the South African Government, and we are now considering what further actions we might usefully take to persuade the South Africans that it is in their own best interest to move rapidly to resolve in a satisfactory manner the Namibian issue. Assistant Secretary Buffum will discuss the U.N. aspects of the South African and Namibian issues.

STATEMENT BY ASSISTANT SECRETARY BUFFUM

I should like to review briefly for this committee events in the United Nations regarding South Africa and Namibia and the U.S. position with respect to those events.

Two policies pursued by the Government of South Africa have involved that nation

in a series of confrontations with the United Nations. The first of these policies is of course apartheid, which has been mentioned by Ambassador Davis at some length. The other is the South African administration of the mandated territory of Namibia, which has also been mentioned. While the United Nations has had a consistent position of condemning the South African Government for these policies over a long period, the tempo of U.N. considerations has been accelerated in recent years by the active interest of the new African members.

The failure of the South African Government to heed numerous U.N. resolutions and the opinions of the International Court of Justice led to a sense of frustration among many of the members and eventually to the rejection of the South African delegation's credentials at the 29th General Assembly. Rejection of those credentials in effect deprived South Africa of a fundamental right and privilege of membership, namely, participation in the General Assembly, and was effected in a manner which we consider violates the U.N. Charter and the General Assembly Rules of Procedure. I believe it worthwhile to provide the committee with some of the background.

Each year from 1970 to 1973 the U.N. General Assembly has voted to amend the report of its Credentials Committee in order to reject the South African delegation's credentials. In each instance, the Assembly President ruled that the vote constituted a severe condemnation of and warning to South Africa but that the South African delegation could continue to participate in the General Assembly since their credentials were technically in order.

In 1974 the Credentials Committee itself rejected the South African credentials. The 29th General Assembly President, [Foreign Minister Abdelaziz] Bouteflika, of Algeria, departed from the past rulings and instead ruled that the rejection required the exclusion of South Africa's participation from the remainder of the General Assembly session. The United States opposed this decision because we thought it not in accordance with the Assembly's Rules of Procedure,

which provide only that the credentials must be signed by the head of state or government or the Minister of Foreign Affairs. In our view, the credentials review process is a technical one, designed to verify that persons claiming to represent a government have been authorized by that government.

In addition, the U.N. Charter provides that the Security Council must recommend suspension or expulsion before the Assembly may act. Suspension of membership rights through the rejection of credentials is clearly contrary to the charter provisions. On September 30, 1974, the General Assembly approved the Credentials Committee report recommending the rejection of South African credentials and called on the Security Council "to review the relationship between the United Nations and South Africa" In carrying out the instructions of the General Assembly, the Security Council met and reviewed a resolution calling for the expulsion of South Africa. On October 30, 1974, that resolution was rejected when France, the United Kingdom, and the United States joined in the first triple veto in the history of the United Nations. On November 12 the General Assembly upheld Mr. Bouteflika's ruling to suspend South Africa.

The reasoning behind these efforts to exclude South Africa appears to rest on the objection to two basic South African policies. The first is clearly the policy of racial segregation known as apartheid in which the majority of South Africa's population remains unrepresented in South African delegations. The United Nations has established a special committee which reviews the question of apartheid and reports findings and recommendations to the General Assembly. The General Assembly with significant U.S. support has adopted resolutions condemning the policy of apartheid. The second is the South African policy of continued illegal occupation of and extension of the policy of apartheid to the former German colony of South-West Africa, now known as Namibia.

As you probably know, the League of Nations in 1920 granted South Africa a mandate over the territory of South-West

Africa. The provisions of the mandate were aimed at respecting the separate international status of the territory of South-West Africa while authorizing South Africa to administer the internal arrangements of the territory. Such administrative arrangements were intended under the mandate system to be a means to political, economic, and social development of the territory to facilitate ultimate self-determination. The U.N. General Assembly, as the League's successor, holds the authority to review conditions in the territory of Namibia and its progress toward self-determination.

From its earliest days as administrator, South Africa came under attack for its exploitation of Namibia and its treatment of its nonwhite population. South Africa's racial policy of apartheid had been severely criticized by the League of Nations. The League's successor, the United Nations, has also criticized repeatedly and severely South Africa's administration of Namibia and policy of apartheid. In October 1966, the U.N. General Assembly, with U.S. support, decided that South Africa had violated its mandate. The General Assembly in Resolution 2145 declared the mandate terminated and stated that henceforth Namibia was to be the direct responsibility of the United Nations.

On June 21, 1971, the International Court of Justice gave an advisory opinion on the legal consequences of South Africa's continued presence in the territory and ruled in effect that the South African mandate was legally terminated by the United Nations. However, U.N. efforts to exercise its responsibility have been of little avail because of South Africa's refusal to cooperate.

On December 17, 1974, the U.N. Security Council unanimously adopted Resolution 366, which demanded that South Africa make a statement that it will comply with U.N. resolutions on Namibia and that it withdraw from the territory and transfer power to the people of the territory. That resolution was entirely consistent with the established U.S. view that South Africa's presence in the territory has been illegal since the General Assembly Resolution 2145 in 1966 revoked South Africa's mandate.

In Resolution 366 the Security Council also decided to meet before May 30, 1975, to review South Africa's compliance with the resolution's provisions. On May 27, Prime Minister Vorster delineated South Africa's position:

1. South Africa could not accept U.N. supervision with respect to Namibia.

2. South Africa was prepared to negotiate with a mutually acceptable representative of the U.N. Secretary General.

3. The South African Government was prepared to welcome African leaders who may wish to visit Namibia.

4. The South African Government was open to meet with the African chairmen of the U.N. Council for Namibia and the Organization of African Unity and to aid true leaders of the territory to meet with them as well.

In execution of Resolution 366, the Security Council met the first week in June of this year to review the question of South Africa's continued illegal occupation of Namibia. The resolution before the Security Council determined that the illegal occupation of Namibia by South Africa constituted a threat to international peace and security and therefore called for the institution of a mandatory arms embargo as provided for under chapter 7 of the U.N. Charter. France, the United Kingdom, and the United States joined to veto the resolution. This marked the seventh time the United States had exercised its veto in the Security Council.

The United States believes that mandatory sanctions provided for under chapter 7 of the charter are not required by the existing situation in Namibia. Deplorable and illegal though South Africa's occupation of Namibia

may be, we do not believe that the situation justifies a call for obligatory action by U.N. member states. There appears to be no danger of imminent attack by Namibia on any of its neighbors, nor does an attack by South Africa or its neighbors on Namibia appear imminent.

The U.S. Government has unilaterally refused to allow shipments of American arms and military equipment to South Africa for the last 12 years. We have taken this action to make clear our strong disapproval of apartheid and to assist in a peaceful resolution of the serious racial situation in southern Africa. We invite other countries to join us in our voluntary arms embargo policy. We do not, however, believe that the current situation justifies making that embargo a mandatory one or calling for other sanctions which under the charter are designed to deal with threats to peace.

As a further commitment to southern Africans under minority rule, the U.S. Government has participated in voluntary humanitarian and educational U.N. programs. The United States has contributed since 1968 to the U.N. Fund for Namibia and U.N. Educational and Training Program for Southern Africa. Our contributions are contingent upon voluntary contributions of other countries and the absence of allocations from the regular U.N. budget. The goal of these programs is to provide assistance for education and vocational training to students from the minority-ruled territories of Africa denied educational opportunities in their own countries. All training is conducted outside of the minority-ruled countries. For the last fiscal year we contributed approximately \$50,000 to these programs.

Department Discusses Developments Affecting World Sugar Trade

Statement by Julius L. Katz

*Deputy Assistant Secretary for Economic and Business Affairs*¹

I appreciate this opportunity to appear before your committee to discuss the sugar situation. There have been a number of significant developments affecting world sugar trade since the defeat in the House of Representatives last year of the bill to renew the U.S. Sugar Act. As your committee considers the question of U.S. sugar policy, it is appropriate to review these developments. In my statement, Mr. Chairman, I propose to examine:

- The course of prices over the past year;
- Recent import performance;
- Production and consumption trends in the world;
- Changes in sugar policies of other major importing countries;
- The status of the International Sugar Agreement; and
- Efforts at cooperation among producing countries.

Sugar prices in the past year have been extremely volatile. In November the spot price for domestic raw sugar reached a peak of 64.5 cents per pound. By June 18, prices had fallen to 14.25 cents per pound. In the past 22 days, prices have again risen to 20.2 cents per pound. World market prices have followed a similar course.

There are a number of reasons for the sharp runup of prices last year:

- For several years before 1974, world

consumption had outrun production with a resultant drawdown of stocks; in the United States, for example, stocks at the end of the 1974/75 crop year were at the lowest level since the 1956/57 crop year.

—Weather conditions were unusually bad in Europe and in the U.S.S.R.

—As prices began to increase, there was evident panic buying as well as withholding of supplies at critical moments by major producing countries.

Since the peak reached in November, prices tumbled as consumption fell in a number of major importing nations not controlling or subsidizing prices, including the United States, Japan, and Canada.

Throughout this period, the United States has had adequate supplies of sugar. Through the operation of the old Sugar Act, quotas were increased sharply as prices went through the price corridor. There are some experts who believe that the large demands put on the world market by the United States Sugar Act in fact contributed to the rapid escalation of price. Be that as it may, imports into the United States increased by 7.3 percent in 1974 over 1973, reaching 5.75 million short tons.

Notwithstanding knowledge of the likely expiration of the Sugar Act at the end of 1975, foreign suppliers shipped 545,000 short tons more in 1974 than the total initial quota and came within a million tons of the final quota, in some cases shorting their other preferential markets. Uncertainty about the future of the United States Sugar Act may have contributed to this high performance since foreign suppliers may have wished to

¹ Made before the House Committee on Agriculture on July 14. The complete transcript of the hearings will be published by the committee and will be available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

demonstrate high performance in the event a new sugar program was enacted.

The import pattern for 1975 appears to be heading for a significant change. On the basis of evidence to date, it seems that our imports will be down to some 3.6 million to 4 million short tons (compared to imports of 5.75 million tons in 1974). The change in the import level this year is due to two major factors. With high world prices abroad as well as in the United States, and the diminished likelihood of U.S. sugar legislation this year, this incentive to ship to the United States has been somewhat lessened. The second factor has to do with a change in the production pattern.

Current Production and Consumption Trends

In response to current high prices, there has been a dramatic increase in beet sugar production. In the United States there has been a 27 percent increase in acreage planted in sugar beets which, it is estimated, should result in a 600,000-ton increase in the 3 million short tons of sugar produced last year. The combined acreage increase in Western and Eastern Europe rose 8 percent this year from last year. Based on average yields, this should result in about 5 million additional tons of production in the current (1975/76) crop year. This estimate, of course, assumes normal weather and could be reduced should the drought in some parts of Europe continue.

World sugar consumption increased steadily throughout the 1960's and early 1970's. High prices in the past year have adversely affected demand throughout the world. The growth of demand in 1974 was below trend, and data for 1975 so far indicate an actual reduction in consumption in 1975. This situation, combined with increased production, should permit a gradual rebuilding of world sugar stocks to more normal levels of about 25 percent of world production, compared to the low point of 15.8 percent reached in 1974.

A major new factor in our sugar market is high-fructose corn syrup. It has been estimated that 25 to 50 percent of the sugar

used industrially may eventually be replaced by high-fructose corn syrup. This type of corn syrup can be used as a substitute for liquid sugar in beverages, canned fruit, frozen fruit, preserves, ice cream, or generally in products where moisture is a desirable characteristic. The high-fructose-sweetener industry is likely to provide significant competition to the sugar industry, but currently lack of capacity has limited supplies and put distribution on an allocation basis. Several new plants are expected to come into production in the next several years, but capacity may not catch up with demand until 1978 or 1980, when some predictions are that high-fructose corn syrup will supply us with the equivalent of 3 million tons of sugar.

Published material indicates that at a sugar price of 10 cents per pound and a corn price of below \$2.00 per bushel, or a sugar price of 15 cents per pound and a corn price of less than \$3.75 per bushel, the high-fructose corn syrup industry can operate profitably.

The advent of high-fructose corn syrup clearly adds a new dimension to U.S. sugar policy. Projected increases in production capacity are expected to equal or exceed the growth of demand in the United States. This new product will offer competition not only to traditional beet and corn sugar production in the United States but to imports as well.

European Community Sugar Arrangements

The dramatic price increases of last year probably served as a catalytic factor in the negotiation of the new arrangements between the European Community and its associated states. These arrangements replace both the old Commonwealth Sugar Agreement and the Community's own prior sugar policy.

In order to understand this agreement, I will first outline the rather complex European Community sugar scheme. The EC sugar common agricultural policy provides for threshold, target, and intervention prices for white and raw sugar. Intervention agen-

cies must buy sugar offered to them at the intervention price. These agencies are generally EC government organs. The threshold price is fixed annually and is equal to the target price plus the cost of transport to the most deficit EC area. The target price is what EC producers are theoretically supposed to receive. In reality, it is the intervention price which they usually receive.

Current prices are: target price for white sugar, 18.7 cents per pound; intervention prices for white sugar, 18.2 cents per pound; threshold price for white sugar, 20.2 cents per pound.

Production is controlled through quotas. The three types of quotas are:

A quota sugar: Basic assigned quota for each country, then allocated to sugar-manufacturing firms. These are set high for 1975/76 to encourage production.

B quota sugar: Assigned to each firm at 45 percent of the A quota. A and B will remain at 1975/76 levels through 1979/80.

C quota sugar: Production outside the maximum A and B quotas, at no guaranteed price.

Import levies are applied when import prices are below the EC threshold price. When world market prices are above the threshold price, a levy on EC exports can be imposed. Subsidies can also be paid on imports under these conditions. Subsidies can be paid on EC sugar exports. Processors have to maintain stocks at 10 percent of the firm's production.

Under the agreement with the African, Caribbean, and Pacific countries, the EC has undertaken to import yearly 1.4 million tons of sugar and the ACP supplying countries have undertaken to make that amount available. Within the limits of the amount agreed, the EC guarantees a minimum price to be negotiated annually, taking account of the Community price as well as other economic factors. The price paid after the first year is likely to be the same as that paid European farmers for A and B quota sugar, in the 18-to-20-cents-per-pound range, with a discount for the fact that the imports are raw sugar.

The agreement is valid for an indefinite period, but any party is permitted to renounce participation after five years, with withdrawal effective after two more years. During 1975 the price received is to be about \$575 per metric ton (about 27 cents per pound). The difference between this price and the EC intervention price is to be made up by the United Kingdom in the form of an import subsidy during 1975, since the United Kingdom is the principal EC sugar importer.

Cuban Trade Arrangements

In addition to the European Community's arrangement with its associated states, the other major preferential import arrangement is between the U.S.S.R. and Cuba. The Cuban-U.S.S.R. preferential arrangement differs from that just concluded between the EC and ACP countries. So far as we are aware, there is no long-term agreement between Cuba and the U.S.S.R. on sugar deliveries. The amount supplied each year is agreed upon annually as part of the annual trade protocol. The U.S.S.R. takes less in short crop years so as to allow a constant Cuban supply to the world market in order to secure foreign exchange. In years of bumper crops, the U.S.S.R. takes more, thus relieving Cuba of the need to carry the stock. Cuban shipments to the U.S.S.R. ranged from 1.1 million to 3.1 million metric tons between 1967 and 1973; 1974 shipments were somewhat over 1.85 million metric tons, according to trade sources.

The details of Cuba's trade arrangement involving approximately 500,000 tons to Far Eastern Communist areas are not fully known.

In your invitation to these hearings, Mr. Chairman, you raised the question of the effect on the U.S. sugar market if diplomatic and economic relations with Cuba are resumed. I am not prepared at this time to speculate on when relations with Cuba might be resumed. I believe it is safe to say, however, that a reentry of Cuban sugar to the U.S. market should not have a significant

effect, other than the rearrangement of certain supplying relationships. Cuban sales to the United States would in all likelihood displace imports from other foreign sources. At the same time, Cuba would be likely to vacate certain markets which could be filled by the suppliers displaced from the U.S. market. What would occur therefore would be a kind of musical chairs arrangement, with perhaps a more rational trading pattern but with little other economic impact.

Trend Toward Long-Term Contracting

With the changes in the old preferential arrangements such as the U.S. Sugar Act and the Commonwealth Sugar Agreement, there is a noticeable trend in the direction of long-term contracting between sugar exporters and private or governmental importers. Australia has been the most active exporter seeking such arrangements, although Thailand, Brazil, Taiwan, Trinidad and Tobago, South Africa, and others have also shown an interest. If all contracts being discussed by Australia are consummated, about 55 percent of 1975 Australian exports could come under long-term contract. Japan has been the most active importer and may serve around 2 million metric tons of its import needs with such arrangements. The People's Republic of China, South Korea, and Iran are among other importers entering into such arrangements.

There are indications that some private U.S. buyers of raw sugar are interested in similar long-term contracts with foreign exporters. We have not been informed that any contracts have yet been concluded, however.

Some of the contracts appear to be on a fixed-price basis, but most seem to have variable-price clauses tied to the world market price or a sharing of benefits above a fixed price range. Most exporters seem to want a minimum price included in such contracts to insure a minimum level of earnings from sugar exports, but at the same time they seem willing to forgo returns at price peaks to achieve stability of earnings for planning purposes.

Status of International Sugar Agreement

The International Sugar Agreement (ISA) has existed continuously since 1937. The agreement has attempted to regulate trade in the small residual "free market," representing about 12 percent of world production and about 50 percent of the world trade. There have been lengthy periods when the agreement has lacked quotas and other economic provisions, including the period 1961-68. The United States was a member of the ISA from 1937 until December 31, 1968, when the current agreement entered into force. The United States continues to cooperate with the International Sugar Organization by providing statistical data and by sending observers to meetings of the Sugar Council. There are currently 55 members of the ISA, 22 importers and 33 exporters.

The sugar agreement is designed to operate primarily with minimum and maximum prices regulated by quotas distributed among exporting members of the agreement. The agreed price range in the 1968 agreement was 3.25 cents per pound to 5.25 cents per pound. The 1968 agreement also provided for a supply-commitment price. Exporting countries committed themselves to supply importing members with a specified amount of sugar, at a fixed price, when "free market" quotations rose above that price. The supply-commitment price negotiated in 1968 was 6.5 cents per pound, free on board and stowed at Greater Caribbean ports. This price was twice adjusted upward during the period of the agreement, and in 1973 was 7.6 cents per pound.

Negotiations in 1973 to extend the agreement, however, failed over the inability of exporters and importers to agree on a price range. Discussion on the supply-commitment price also led to the breakdown, with importers insisting on a level no higher than 8.25 cents while exporters wanted 11 cents.

The International Sugar Council met in May to consider the necessity for renegotiation of the agreement. It was decided at that meeting to postpone a decision on renegotiation until November 1975 and to con-

sider the necessity for extending the current agreement in its skeletal form without economic provisions such as quotas and price range until December 31, 1976, from its present expiration date of December 31, 1975.

Although the United States had been a member of sugar agreements dating as far back as 1937, we did not choose to participate in the 1968 agreement. Since all U.S. sugar imports were covered by special arrangement, they would have, in any case, been exempt from the regulation of the 1968 agreement. Thus U.S. participation in the agreement was not necessary either to support the operation of the agreement or to protect the U.S. market. With the end of the Sugar Act, U.S. participation in an international sugar agreement would become more meaningful.

Should the International Sugar Council decide to open negotiations for a new sugar agreement later this year or next, it would be our intention to participate actively in the negotiations. Whether we will be a member of any new agreement will, however, depend on a number of considerations, including our evaluation of the agreement negotiated and the future course of U.S. sugar policy.

Consultations Among Producing Countries

The collapse of sugar prices last winter and the uncertainty about putting the International Sugar Agreement back into operation has, not unexpectedly, led various foreign sugar-producing countries to consult about the sugar market.

Latin American sugar producers have met twice to discuss the sugar situation. The first meeting, held in Cozumel, Mexico, last November, was the outgrowth of an agreement reached in July 1974 between Mexico and Argentina to undertake governmental and industrial interchange of technical knowledge and cooperation in the external marketing of sugar, defend the interests of their respective sugar industries in the international market, concert the two countries' positions in international organizations, and

propose to other Latin American countries that they create a mechanism for consultation in the area of sugar.

At this meeting, agreement reportedly was reached to institutionalize regular meetings which would encourage cooperation and consultation among Latin American sugar producers, exchange information and statistical data on the supply and demand for sugar and its price, and maintain unity among Latin American and Caribbean sugar producers for meetings of the International Sugar Organization in London.

The second meeting, in Puerto Plata, Dominican Republic, included representatives from 22 countries. On the basis of press reports and other information we received, it appears that the meeting was largely an exchange of technical information and a coordination of positions for the May 1975 meetings of the International Sugar Organization. The group decided to meet again in Lima in September 1975.

The question has been raised whether the absence of a sugar agreement or a U.S. Sugar Act is likely to lead to a sugar cartel among foreign producers. In my view the threat of cartel action in sugar is not serious. This is not to say that producers will not seek to consult among themselves, to coordinate their policies, and even to concert their price policies. I seriously question, however, whether any group of producers can without consumer cooperation succeed in regulating price for any significant period of time. Cartel arrangements are inherently unstable and can endure only so long as it takes for a supply response to undermine the cartel. For sugar, unlike petroleum, the supply response would not be long in coming.

Mr. Chairman, I hope that this review of developments affecting world production, consumption, and trade in sugar will be of use to your committee in its deliberations. I can assure you that we will listen with attention and interest to the testimony presented in these hearings as we in the executive branch conduct our own studies on U.S. sugar policy.

Department Urges U.S. Participation in IDB Replenishment

Following is a statement by William D. Rogers, Assistant Secretary for Inter-American Affairs, made before the Subcommittee on International Development Institutions and Finance of the House Committee on Banking, Currency, and Housing on July 29.¹

The Inter-American Development Bank (IDB), since its establishment in 1959, has been a principal component of our Latin American policy. It is a key symbol and living expression of continuing hemispheric cooperation for a better life for the peoples of the Americas. Over the years the nature of that cooperation has accommodated to the increasing maturity and efforts at self-help of Latin America, and the IDB has accurately reflected that changing relationship within the hemisphere.

Whereas a decade ago bilateral official assistance from the United States was the largest source of resource transfer to Latin America, in fiscal year 1974 the IDB provided more official financing to Latin America than any other institution. Its loans are today indispensable to the continuing economic and social development in a part of the world of special interest to the United States. As Latin America has sustained and accelerated its growth in the last decade and a half, the expanding role of the IDB has required increased sharing by all member governments in the financing of development programs. Such an evolution has paralleled our changing political relations with Latin American countries on a basis of greater equality.

Our willingness to continue our support for the IDB, on terms reflecting greater Latin American participation than ever before, is a test of the seriousness of our hemispheric foreign policy. For while Latin

America has enjoyed increasing prosperity, it also has not been immune from the dislocations that have wracked the world economy. In this uncertain environment, sustained financial flows to Latin America assume special importance.

A central tenet of our policy in the region has been the mutuality of the benefits of economic development in Latin America. Now, more than in recent years, that development has been rendered precarious, not by internal policy, but by external events. Our prompt adoption of this legislation² will eliminate any uncertainty about where the United States stands in its commitment to help Latin America help itself. And it will make much easier the needed flow of private funds to satisfy Latin American demands.

Action is essential now. In calendar year 1974, the IDB extended \$1.103 billion in development loans. Without replenishment, the Bank will exhaust its ordinary capital commitment authority by the end of 1975 and the convertible currency resources of the Fund for Special Operations by the end of 1976. This replenishment will permit the Bank's lending operations to increase at a rate of about 7 percent a year in real terms.

These flows are necessary to continue to cushion the impact of the crises of energy, food, and fertilizer on the poorest nations and on the lowest income segments of the population. You are familiar with the kinds of assistance the IDB has provided to Latin America. Loans have been made in the major economic sectors of development, principally agriculture and electric power, with a significant portion of IDB's resources also supportive of transportation and communications, industry, and mining. Farm-to-market roads in most countries have aided agricultural credit and crop production projects. IDB's livestock credits have included foot-and-mouth disease control programs

¹The complete transcript of the hearings will be published by the committee and will be available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

²H.R. 8905, a bill to provide for increased participation by the United States in the Inter-American Development Bank, and to provide for the entry of nonregional members and the Bahamas and Guyana, in the Inter-American Development Bank, and for other purposes.

throughout Latin America. In addition to participation in massive electric power generation projects covering, for example, the industrializing parts of Brazil or northeast Argentina and all of Uruguay, the Bank has participated in several Colombian projects that have doubled that nation's electric power capacity. These investments provide the infrastructure for an economic development in which all segments of the population can share.

Despite impressive progress, continuing financing is necessary to permit Latin America, matching the inflows with resources predominantly its own, to maintain the heartening material gains of the last decade. Such growth, I must add, contributes to international economic stability as well as to immediate U.S. investment and trade objectives. In our interdependent world, our national interest is served by development that reaches all nations.

There is no better illustration of such interdependence than our economic relations with Latin America. Over several recent years, about 13 percent of our exports, or \$8.9 billion annually, have been sold in Latin American markets, making up more than a third of their total imports. In turn, we have imported tropical products and raw materials from Latin America whose cost would be greater if secured outside the hemisphere. Our balance of trade with the region has traditionally been favorable, a measure of the high level of demand for the intermediate and capital goods inputs absorbed by the region as it grows.

Our private sector, of course, benefits from these transactions in goods. It also gains from the investment opportunities fostered by a rapidly growing Latin America. There is mutual advantage to the Latin American recipients of our direct investment: they acquire the managerial skills and technology essential for continuing development in the modern world.

The IDB has underwritten this mutually beneficial process of hemispheric economic development in impressive fashion since its

founding. It has demonstrated an increasing capacity to use funds wisely and well and shown a responsiveness to those most in need of help. And with this replenishment, it will have demonstrated its ability to rely much less upon the United States than in the past. For although we will again be the largest single contributor to the Bank, the other nations of the Americas will be more prominent than ever before.

The larger Latin American countries have taken a major step in the direction of increased burden sharing. Argentina, Brazil, Mexico, and Venezuela have agreed to cease borrowing convertible currencies from the Bank's concessional window, the Fund for Special Operations, during this replenishment period. They have also indicated willingness to make parts of their own FSO contributions convertible—as they have not done since the Bank was founded.

Paralleling this heartening development has been expansion of the membership of the Bank to incorporate nonregional participation. Such diversification reflects our view that a strong Latin America with ties to the rest of the world as well as to ourselves is the best guarantee of good hemispheric relations. We have worked with Bank management over several years to make this objective a reality.

The separate proposal for nonregional membership will permit 10 European nations, Japan, and Israel to join the Bank and to bring with them total contributions of \$745 million. About half of this amount will be subscribed to new interregional capital which will increase the Bank's ability to borrow in international capital markets, beyond the U.S. callable capital base of the ordinary capital window. The creation of this new capital is a major step in broadening the Bank's resources.

I also wish to speak in favor of the authorization of IDB lending to the Caribbean Development Bank, and membership for the Bahamas and Guyana. These newly independent nations are not members of the Organization of American States as the IDB

charter now requires. But these newly independent states are very much part of the region and should be granted access to membership as part of their legitimate aspirations.

We also support the proposal to amend the IDB Agreement to enable IDB lending to the Caribbean Development Bank for re-lending to countries not members of the IDB. The Caribbean Bank, through its familiarity with the problems of the many small and poor nations in the subregion, is a far better agency for channeling finance than simple expansion of IDB membership. We see such an arrangement as an imaginative innovation permitting the IDB to serve the hemisphere more effectively.

In sum, the details of this replenishment confirm the basic premises upon which our Latin American policy is founded. There could be no better proof of the increased self-reliance and economic development of the hemisphere than the greater participation of our Latin American neighbors in the Bank. There could be no clearer evidence of the global projection of the hemisphere than the addition of the nonregional members. And there could be no more appropriate test of our willingness to continue to cooperate with the region in its heartening progress than prompt approval of the legislation before you.

Letters of Credence

Argentina

The newly appointed Ambassador of the Argentine Republic, Rafael Maximiano Vazquez, presented his credentials to President Ford on July 14.¹

Canada

The newly appointed Ambassador of Canada, Jack Hamilton Warren, presented his credentials to President Ford on July 14.¹

¹ For texts of the Ambassador's remarks and the President's reply, see Department of State press release dated July 14.

Hungary

The newly appointed Ambassador of the Hungarian People's Republic, Ferenc Esztergalyos, presented his credentials to President Ford on July 14.¹

Italy

The newly appointed Ambassador of the Italian Republic, Roberto Gaja, presented his credentials to President Ford on July 14.¹

Kuwait

The newly appointed Ambassador of the State of Kuwait, Khalid Muhammad Jaffar, presented his credentials to President Ford on July 14.¹

Congressional Documents Relating to Foreign Policy

94th Congress 1st Session

The Role of Advisory Committees in U.S. Foreign Policy. Prepared for the Senate Committee on Foreign Relations and the House Committee on International Relations by the Foreign Affairs Division, Congressional Research Service, Library of Congress. April 1975. 135 pp.

Congress and Foreign Policy: 1974. Prepared for the House Committee on International Relations by the Foreign Affairs Division, Congressional Research Service, Library of Congress. April 15, 1975. 72 pp.

Emergency Supplemental Appropriations for Assistance to the Republic of South Vietnam for 1975. Report of the House Committee on Appropriations to accompany H.J. Res. 407. H. Rept. 94-166. April 22, 1975. 3 pp.

The War Powers Resolution. Relevant Documents, Correspondence, Reports. Prepared for the Subcommittee on International Security and Scientific Affairs House Committee on International Relations. April 23, 1975. 42 pp.

U.N. Peacekeeping in the Middle East. Report of the Senate Committee on Foreign Relations to accompany S. 818. S. Rept. 94-93. April 24, 1975. 2 pp.

World Food Conference of 1976 in Ames, Iowa. Report of the Senate Committee on Foreign Relations to accompany S. Con. Res. 19. S. Rept. 94-94. April 24, 1975. 2 pp.

Authorizing Appropriations for Tourist Travel Promotion. Report of the House Committee on Interstate and Foreign Commerce to accompany H.R. 5357. H. Rept. 94-177. April 28, 1975. 11 pp.

U.S. Presents Initiative in Disarmament Committee on Limitation of Military Expenditures

Following is a statement made before the Conference of the Committee on Disarmament (CCD) at Geneva by U.S. Representative Joseph J. Martin, Jr., on July 24.

Today I would like to address some issues raised in the Secretary General's 1974 report on the reduction of military budgets¹ and to table a working paper suggesting some practical steps that this committee could take toward the goal of creating conditions under which the limitation of military expenditures might be achieved.

We are all conscious of the vast economic resources that are now devoted to maintaining and strengthening the world's military establishments. According to estimates made by the U.S. Arms Control and Disarmament Agency, the world's military expenditures, after allowing for price changes, rose at an average rate of 2.6 percent per year in the decade following 1963, and in 1973 amounted to approximately \$275 billion. These can only be rough estimates, in view of the uncertainties in the data, but it is clear that the burden of these high levels of military expenditure is felt by virtually all countries, both developed and developing.

These levels have understandably occasioned widespread concern. Many have deplored the diversion of important resources to military programs when there are so many pressing economic and social needs which

require attention. No one can be satisfied with this situation. But merely to deplore it is not enough, and to underestimate the difficulties that must be overcome if the situation is to be changed would be self-deceiving. The world would clearly benefit if security could be achieved at less cost and resources could thus be freed for other purposes. But recognizing that such benefits might occur does not make it any less difficult to achieve agreement on limitations. Moreover, until the difficulties are resolved, it would be premature to consider such questions as the disposition of funds that might be saved through military expenditure limitations.

Military expenditures reflect each nation's perception of the effort it must make to provide for its own security and to contribute to international stability. Arms control negotiations have generally recognized this fact and have accordingly focused on the objects of military expenditures—forces, weapons, activities, and systems—rather than on the expenditures themselves. This focus has characterized, for example, the Strategic Arms Limitation Talks between the United States and the Soviet Union, the mutual and balanced force reduction negotiations in Europe, and the multilateral negotiations in this committee.

The United States continues to believe that, under present circumstances, agreements directly limiting military expenditures themselves are not practicable. It cannot be expected that any government could undertake to limit or reduce its military expenditures as an arms control measure unless it was

¹ U.N. doc. A/9770; report of the Secretary General of the United Nations incorporating the report of the Group of Consultant Experts on the Reduction of Military Budgets appointed in accordance with General Assembly Resolution 3093 B (XXVIII).

confident that doing so would not detract from its security. Any agreed limitations or reductions would have to provide assurance that no one country is disadvantaged and that destabilizing imbalances that could adversely affect international security are prevented.

To set forth these requirements, however, is not to say that agreed limitations have no conceivable utility. Under certain conditions, agreed expenditure limitations, either as supplements to physical limitations or as independent measures, might make a valuable contribution to arms control efforts. But before their potential can be seriously evaluated, a number of basic questions must be answered. Many of these questions involve conceptual and technical problems that have not yet been resolved. In fact, until recently many of them had not even been clearly identified and their existence was not widely recognized, at least in international bodies concerned with arms control and disarmament.

This necessary first step of identifying these problems has, however, now been taken. I am referring to the report on the reduction of military budgets completed last year by a group of experts appointed by the Secretary General of the United Nations. That report addresses the essential characteristics of military expenditure limitations in a disarmament context. In addition, it examines a number of alternative approaches to such limitations. The report notes that these different approaches would have "different requirements, different possible effects on security and, indeed, different consequences for the release of resources for development aid." In examining these various implications, the report adds a significant new dimension to previous U.N. reports that have dealt with military expenditures and their consequences in more general terms. Moreover, the report, which was unanimously approved by experts from a wide cross-section of countries, provides a clear exposition of the problems involved in military expenditure limitations and suggests the areas in which more thor-

ough consideration is needed if they are to become a real possibility.

The basic questions identified by the experts fall into three general areas. First, how can one measure the military spending of different countries, with their different currencies, different fiscal and financial practices, and different kinds of armed forces, so as to permit effective comparisons among them? Second, how can limitations be formulated and applied so that no country need feel that its security interests could be endangered by an agreement? Third, how can compliance with a limitation agreement be assured and verified with sufficient confidence?

The experts' report, understandably, was not able to provide comprehensive answers to these questions. It has nonetheless made an important contribution by formulating them and pointing out the technical issues they involve. The experts agreed that:

The various technical issues involved in an agreement to reduce military expenditures are sufficiently complex to suggest that it might be reasonable to make a step-by-step approach.

Last fall the General Assembly adopted Resolution 3254 (XXIX), which requested that states convey their views on the experts' report to the Secretary General. The response of my government commended the report, especially for its survey of conceptual and technical issues. It also noted that the report provided a sound basis for further work on the subject and suggested that such work be conducted under U.N. or CCD auspices. The United States informed the Secretary General of its willingness to engage in serious efforts to resolve the conceptual and technical problems involved in achieving agreements on military expenditure limitations that would be responsive to the security needs of the participants.

We believe that this committee would be an appropriate body in which to undertake such efforts, particularly since all 11 of the countries that provided the experts for the Secretary General's report are now represented here. I would suggest, specifically, that

the CCD begin by focusing on the first, and most basic, of the three areas identified by the experts; that is, the question of definition and measurement of military expenditures.

The U.S. working paper tabled today offers our views on how the CCD could examine four major components of this question. These elements are, first, the definition of military expenditures; second, the valuation of resources in the military sector; third, the deflation of current price data; and fourth, the making of international value comparisons.

A study of the definition of military expenditures is, in our view, an essential first step. As the experts said:

A prerequisite for negotiating the reduction of military budgets in two or more countries is agreement on what is and what is not to be included in military budgets. The problem of defining the scope and content . . . is critical where a State's decision on allocations to national security and international development assistance will depend directly on the measure of comparative military budget levels.

Unfortunately, there is no accepted conceptual standard of the definition and coverage of the military sectors of the economy taking account of possibilities in some areas for substituting civilian for military activities and considering the links in the chain of production leading to the military sector. Varieties of usage among nations should be examined, and alternative structural classifications of military expenditures should be considered. This examination may look on the military sector as an activity consuming inputs, or kinds of resources, or as an activity providing outputs, such as types of forces, functions, or programs.

In discussing the second basic element, the valuation of resources in the military sector, the experts noted that:

Negotiators attempting to agree on equivalent reductions in military budgets will be concerned to ensure, as far as possible, that these cuts do represent equivalent reductions in military power. It cannot be automatically assumed that this will be so.

A study of valuation would begin by assessing alternative output measurements for

the military sector as well as measurements of resource costs. It would evaluate the measurement of resource costs based on the value of nonmilitary opportunities forgone and the applicability of such valuations in an arms control context. This would include the links between military inputs and outputs and their relation to military power and national security. Reaching agreement on appropriate valuation criteria would call for an examination of theoretical and actual standards for both centrally planned and market-oriented economies.

The inflation that has been experienced by many economies in recent years has underscored the importance of finding appropriate means to deflate military expenditures for comparative purposes. A significant problem in this connection would involve determining ways to differentiate between expenditures reflecting qualitative improvements in military products and those simply reflecting price changes. The various methods of payment or other compensation to military personnel constitute another problem.

Finally, it would be necessary to explore means of making international value comparisons. In some ways the problems in this area—that is, price comparisons among countries—are analogous to those in the area of price deflation, or price comparisons in one country over time. International comparisons of military expenditures appear to require purchasing-power parities, or rates of transformation from one currency to another in which relative prices between countries are averaged in some manner that takes account of patterns of expenditure. The use of opportunity-cost valuations might be helpful in dealing with this problem.

We believe that real progress toward a common understanding of the measurement and comparison of military expenditures could be made through careful examination of these questions. In doing this, I might add, it would not be necessary to have specific new statistical data about any country's military spending.

My delegation would welcome specific sug-

gestions concerning procedures for organizing work along these lines. We suggest as one possibility an informal meeting with experts, perhaps early in our next session, to work toward solutions of the conceptual problems I have mentioned. An alternative approach would be to organize a study by an ad hoc group of governmental experts under CCD auspices. Such a group could be charged with preparing proposals for resolving some of the problems and recommending a course of future action.

The approach of the group might be structured along the following lines. First, it would be important to search out and analyze the studies and reports published in various countries. In addition to the report of the U.N. experts, extensive work which may still be relevant was done by the League of Nations, for example. There is also a 1973 SIPRI [Stockholm International Peace Research Institute] report on "The Meaning and Measurement of Military Expenditure."

Secondly, experts might submit detailed technical working papers on such topics as: (a) the purpose and objectives of the study; (b) basic approaches to technical problems such as classification criteria and index number formulae; (c) the formulation of tentative models and standards; and (d) the evaluation of tentative models in the light of national conditions and policies. This last topic would take account of such factors as a nation's system of statistics and accounts, financial and pricing practices, and economic principles.

Finally, proceeding from an examination of the various technical problems, the group should make, where possible, recommendations on how we might best measure and compare the military spending of various countries. This objective should be a realistic one in this basic and relatively tractable aspect of studying military expenditure limitations. On other issues, the recommendations might point out ways by which further progress can be made. Success in this effort would form a basis for proceeding to similar efforts on the other major issues involved.

U.N. Force in Israel-Egypt Sector Extended Through October

Following is a statement made in the U.N. Security Council by U.S. Representative Daniel P. Moynihan on July 24, together with the text of a resolution adopted by the Council that day.

STATEMENT BY AMBASSADOR MOYNIHAN

USUN press release 81 dated July 24

Mr. President [Eugenio Plaja, of Italy]: I should like first to express my gratitude for your warm words of welcome to me and to state the sense of honor which I feel to have begun my service on the Security Council under your Presidency, sir. I should like to particularly express admiration and gratitude for your extraordinary leadership and that of your deputy that has brought us through delicate and important consultations to this agreement today on the extension of the UNEF [United Nations Emergency Force] mandate. There is no need for me to underline the importance my government attaches to the continued operation of this Force. We consider UNEF is essential not only on the ground in the Middle East but also for what it contributes to the atmosphere in which further negotiations are proceeding.

I would like also to express the admiration of the United States for those who serve in UNEF and those who lead it. We are pleased to note in the latest report of the Secretary General that the area of UNEF has remained quiet and there have been no significant violations of the agreements by either party. This is a tribute to the desire of the parties concerned, Israel and Egypt, to persevere in their search for peace and to those who are responsible for the maintenance and functioning of the Force—the Secretary General and his staff. The action of the Council today enables us to continue our efforts, on the basis of Security Council Resolutions 242 and 338, toward the just

and lasting peace in the Middle East to which we are all committed.

It remains to be noted that the finest leadership and the most selfless willingness to serve, as important as these are, require at the same time positive attitudes on the part of the parties in seeking peace. My government wishes to express its appreciation to President Sadat [of Egypt] and Prime Minister Rabin [of Israel] for the affirmative actions which have made possible the renewal of the mandate of UNEF—a force which serves the mutual interests of both sides.

TEXT OF RESOLUTION ¹

The Security Council,

Recalling its resolutions 338 (1973), 340 (1973), 341 (1973), 346 (1974), 362 (1974) and 368 (1975),

Taking into account the letter dated 14 July 1975 addressed by the Deputy Prime Minister and Minister of Foreign Affairs of the Arab Republic of Egypt to the Secretary-General (S/11757),

Bearing in mind the appeal addressed by the President of the Security Council to the Government of the Arab Republic of Egypt on 21 July 1975 (S/11771) and expressing satisfaction for the reply of the Government of the Arab Republic of Egypt thereto (S/11771),

Having considered the report of the Secretary-General on the United Nations Emergency Force of 16 July 1975 (S/11758),

Expressing concern at the continued state of tension in the area and the lack of progress towards the achievement of a just and lasting peace in the Middle East,

1. *Calls upon* the parties concerned to implement immediately Security Council resolution 338 (1973);

2. *Decides* to renew the mandate of the United Nations Emergency Force for a period of three months, that is, until 24 October 1975;

3. *Requests* the Secretary-General to submit at the end of this period or at any time in the intervening period a report on the situation in the Middle East and the steps taken to implement resolution 338 (1973).

¹ U.N. doc. S/RES/371 (1975); adopted by the Council on July 24 by a vote of 13 to 0, with the People's Republic of China and Iraq not participating in the vote.

U.S. Makes Special Contribution to UNRWA

Following is a statement by W. Tapley Bennett, Jr., U.S. Deputy Representative to the United Nations, upon presenting a check for \$6 million as a special U.S. contribution to the U.N. Relief and Works Agency for Palestine Refugees in the Near East to Jan van Wijk, Director, New York Liaison Office, UNRWA, on July 11.

USUN press release 78 dated July 11

This \$6 million completes the donation by the United States of \$16 million in special contributions to UNRWA in 1975. These amounts, which are in addition to the regular \$23.2 million U.S. contribution to UNRWA for 1975, were authorized by the U.S. Congress at its own initiative in response to testimony before its committees by the State Department on UNRWA's critical financial deficit. That deficit was reduced by 40 percent, from \$40 million to \$24 million, by these contributions.

The United States believes that UNRWA's humanitarian work, although amply justified by its very nature, is also essential to the search for peace in the Middle East. In support of this conviction, the United States has contributed, from the establishment of UNRWA through June 30, 1974, a total of almost \$581 million, or about 58 percent of all contributions made by governments in that period.

UNRWA has carried out its program for 25 years with remarkable administrative austerity and great efficiency. It has, however, inescapably felt the effects of worldwide inflation. The pressing human need for UNRWA's services remains; UNRWA stands ready to meet these needs with its characteristic skill and efficiency if the necessary funds can be found.

The United States urges other countries who have not yet contributed in proportion to their resources to join it in providing those funds for that vital work.

TREATY INFORMATION

Current Actions

MULTILATERAL

Astronauts

Agreement on the rescue of astronauts, the return of astronauts, and the return of objects launched into outer space. Opened for signature at Washington, London, and Moscow April 22, 1968. Entered into force December 3, 1968. TIAS 6599. *Ratification deposited:* Greece, July 7, 1975.

Aviation

Convention for the suppression of unlawful seizure of aircraft. Done at The Hague December 16, 1970. Entered into force October 14, 1971. TIAS 7192. *Ratification deposited:* Sierra Leone, November 13, 1974.

Biological Weapons

Convention on the prohibition of the development, production and stockpiling of bacteriological (biological) and toxin weapons and on their destruction. Done at Washington, London, and Moscow April 10, 1972. Entered into force March 26, 1975. TIAS 8062. *Ratification deposited:* Nicaragua, August 7, 1975.

Conservation

Convention on international trade in endangered species of wild fauna and flora, with appendices. Done at Washington March 3, 1973. Entered into force July 1, 1975. *Ratifications deposited:* Peru, June 27, 1975; Costa Rica, June 30, 1975; South Africa, July 15, 1975. *Accession deposited:* Nepal, June 18, 1975.

Health

Amendments to articles 34 and 55 of the Constitution of the World Health Organization of July 22, 1946, as amended (TIAS 1808, 4643). Adopted at Geneva May 22, 1973.¹ *Acceptance deposited:* Mexico, July 25, 1975.

Hydrographic Organization

Convention on the International Hydrographic Organization, with annexes. Done at Monaco May 3, 1967. Entered into force September 22, 1970. TIAS 6933. *Accession deposited:* Malaysia, July 3, 1975.

Judicial Procedure

Convention on the service abroad of judicial and extrajudicial documents in civil or commercial matters. Done at The Hague November 15, 1965. Entered into force February 10, 1969. TIAS 6638. *Ratification deposited:* Luxembourg (with declarations), July 9, 1975.

Maritime Matters

Convention on facilitation of international maritime traffic, with annex. Done at London April 9, 1965. Entered into force March 5, 1967; for the United States May 16, 1967. TIAS 6251. *Accession deposited:* Austria, June 20, 1975.

Oil Pollution

International convention on civil liability for oil pollution damage. Done at Brussels November 29, 1969. Entered into force June 19, 1975.² *Accession deposited:* Union of Soviet Socialist Republics (with reservation and statement), June 24, 1975.

Wheat

Protocol modifying and further extending the wheat trade convention (part of the international wheat agreement) 1971 (TIAS 7144, 7988). Done at Washington March 25, 1975. Entered into force June 19, 1975, with respect to certain provisions and July 1, 1975, with respect to other provisions. *Declaration of provisional application deposited:* Ecuador, July 30, 1975.

World Heritage

Convention concerning the protection of the world cultural and natural heritage. Done at Paris November 16, 1972.¹ *Ratification deposited:* Tunisia, March 10, 1975.

BILATERAL

Indonesia

Understandings concerning the assignment of a Drug Enforcement Administration representative to the American Embassy in Jakarta to advance the U.S.-Indonesian common interest in preventing illegal traffic in narcotic drugs, with annex. Effected by exchange of letters at Jakarta April 1, 1975. Entered into force April 1, 1975.

Israel

Joint agreement for the design, construction, testing and operation of a large-scale prototype desalting plant in Israel. Signed at Washington June 27, 1975. Entered into force June 27, 1975.

¹ Not in force.

¹ Not in force.

² Not in force for the United States.

Japan

Agreement on cooperation in the field of environmental protection, with agreed minutes. Signed at Washington August 5, 1975. Entered into force August 5, 1975.

Romania

Agreement on trade relations. Signed at Bucharest April 2, 1975.

Acceptances exchanged: August 3, 1975.

Entered into force: August 3, 1975.

PUBLICATIONS

1949 "Foreign Relations" Volume on U.N.; Western Hemisphere Released

Press release 389 dated July 30 (for release August 6)

The Department of State released on August 6 "Foreign Relations of the United States," 1949, volume II, "The United Nations; The Western Hemisphere." This volume is the latest in the "Foreign Relations" series, which has been published continuously since 1861 as the official record of American foreign policy. The volume now released is the fifth of nine projected volumes documenting American foreign policy during the year 1949.

This volume of 801 pages presents previously unpublished documentation on participation by the United States in the United Nations as well as on relations with Canada and the countries of Central and South America and the Caribbean. Of particular interest are the sections on the East-West conflict in the U.N. setting; problems resulting from the establishment of the seat of the United Nations in the United States; American policy regarding elections to various U.N. organs; efforts in support of inter-American collective action for the peaceful settlement of disputes in the Caribbean area; relations with the regime of President Juan Perón of Argentina; and events leading to recognition by the United States of the government of Arnulfo Arias in Panama.

The "Foreign Relations" volumes are prepared by the Historical Office, Bureau of Public Affairs. Volume II (listed as Department of State publication 8789; GPO cat. no. S1.1:949/v. II) may be purchased for \$10.40 (domestic postpaid). Checks or money orders should be made out to the Superintendent of Documents and sent to the U.S. Government Book Store, Department of State, Washington, D.C. 20520.

GPO Sales Publications

Publications may be ordered by catalog or stock number from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. A 25-percent discount is made on orders for 100 or more copies of any one publication mailed to the same address. Remittances, payable to the Superintendent of Documents, must accompany orders. Prices shown below, which include domestic postage, are subject to change.

Background Notes: Short, factual summaries which describe the people, history, government, economy, and foreign relations of each country. Each contains a map, a list of principal government officials and U.S. diplomatic and consular officers, and a reading list. (A complete set of all Background Notes currently in stock—at least 140—\$21.80; 1-year subscription service for approximately 77 updated or new Notes—\$23.10; plastic binder—\$1.50.) Single copies of those listed below are available at 30¢ each.

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|-----------------------------|-----------------------|-----------|-------|
| Equatorial Guinea | Cat. No. S1.123:EQ2 | Pub. 8025 | 4 pp. |
| Italy | Cat. No. S1.123:IT1 | Pub. 7861 | 7 pp. |
| Kuwait | Cat. No. S1.123:K96 | Pub. 7855 | 5 pp. |
| Nigeria | Cat. No. S1.123:N56/2 | Pub. 7953 | 7 pp. |
| Oman | Cat. No. S1.123:M97 | Pub. 8070 | 4 pp. |
| Romania | Cat. No. S1.123:R66 | Pub. 7890 | 7 pp. |
| Spain | Cat. No. S1.123:SP2 | Pub. 7800 | 7 pp. |
| Sudan | Cat. No. S1.123:SU2 | Pub. 8022 | 6 pp. |

Reimbursement of Income Taxes. Agreement with the International Atomic Energy Agency. TIAS 7996. 3 pp. 25¢. (Cat. No. S9.10:7996).

Air Transport Services. Amendment to the understanding with Barbados of April 14 and 27, 1972. TIAS 7998. 3 pp. 25¢. (Cat. No. S9.10:7998).

Trade in Cotton Textiles. Agreement with Malta extending the agreement of June 14, 1967, as extended. TIAS 8000. 3 pp. 25¢. (Cat. No. S9.10:8000).

Radiation Effects Research Foundation. Understanding with Japan. TIAS 8001. 9 pp. 30¢. (Cat. No. S9.10:8001).

Trade in Cotton Textiles. Agreement with Portugal extending the agreement of November 17, 1970, as amended. TIAS 8003. 5 pp. 25¢ (Cat. No. S9.10:8003).

Trade in Cotton Textiles. Agreement with Egypt extending the agreement of May 10, 1974. TIAS 8004. 3 pp. 25¢ (Cat. No. S9.10:8004).

Liability for Loss or Damage From Certain Rocket Launches. Agreement with Canada. TIAS 8005. 4 pp. 25¢. (Cat. No. S9.10:8005).

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Check List of Department of State Press Releases: August 4-10

Press releases may be obtained from the Office of Press Relations, Department of State, Washington, D.C. 20520.

| No. | Date | Subject |
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| †399 | 8/4 | Department records for 1948 and 1949 declassified. |
| *400 | 8/5 | U.S. National Committee for Prevention of Marine Pollution, Aug. 28. |
| *401 | 8/5 | Government Advisory Committee on International Book and Library Programs, Sept. 11. |
| *402 | 8/5 | Advisory Committee to U.S. Section, International North Pacific Fisheries Commission, Sept. 29. |
| †403 | 8/6 | 1948 Foreign Relations volume V, part 1, Near East, South Asia, and Africa, released. |
| †404 | 8/6 | Kissinger, Miyazawa: remarks upon signing U.S.-Japan Environmental Agreement, Aug. 5. |
| *405 | 8/7 | Shipping Coordinating Committee Subcommittee on Safety of Life at Sea meeting canceled. |
| *406 | 8/7 | Government Advisory Committee on International Book and Library Programs, Sept. 24. |
| *407 | 8/8 | Shipping Coordinating Committee Subcommittee on Safety of Life at Sea, Aug. 29. |

*Not printed.
† Held for a later issue of the BULLETIN.