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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Formulation Of U.S. International Energy Policies

The Department of Energy is not the focal point for establishing major U. S. international energy policies. That central role is exercised by the Executive Office of the President, especially the National Security Council. As a result, in examining the adequacy of such policies, for the Congress to focus on the activities of the Department of Energy alone, or even Energy and other key departments such as State, Treasury, and Defense, is not sufficient.

International energy policy formulation is essentially an ad hoc process. This does not mean that particular policies, when viewed separately, are wrong. The danger of ad hoc policy formulation is that it may result in policies that, overall, are inconsistent or based on inadequate analyses; however, the fact that the same agencies, offices, and individuals are frequently involved in formulating these policies reduces the likelihood of this occurring.

International energy issues are complex and usually closely related to national security, foreign relations, trade, and international finance matters. Therefore, it is essential that all major policies be looked at periodically from a broad overview perspective to determine whether they are consistent, based on adequate analyses, and likely to achieve broadly stated goals.



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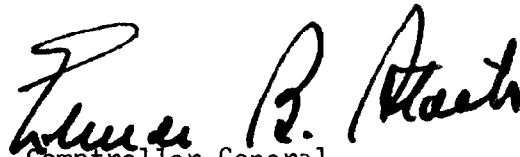
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To the President of the Senate and the
Speaker of the House of Representatives

This report describes how U.S. international energy policies are formulated and coordinated within the executive branch based on examination of five major energy issues.

A dominant role of the Executive Office of the President, particularly the National Security Council, is probably natural given the extent to which national security and foreign policy considerations pervade international energy issues.

We are sending copies of this report to the Assistants to the President for National Security Affairs and for Domestic Affairs and Policy; Chairman, Council of Economic Advisers; Director, Office of Management and Budget; and Secretaries of Commerce, Defense, Energy, State, and Treasury.


Comptroller General
of the United States



D I G E S T

In establishing the Department of Energy, Congress gave it a larger role in formulating international energy policy than its predecessors. Congress intended Energy to play a central role in, but not dominate, policy formulation, recognizing that the complex international energy issues would require active involvement of other departments and agencies, as well as the Executive Office of the President. (See p. 1.)

To find out how the United States develops international energy policy, GAO reviewed five major energy issues covering the period from early 1977 through 1979:

- Vulnerabilities to petroleum supply interruptions.
- Long-term national security strategy on imported oil prices.
- Export of U.S. oil and gas production equipment and technology to the Soviet Union.
- World Bank initiatives to assist in financing oil and gas exploration and development in oil-importing developing countries.
- The role of gas imports relative to the Nation's future sources of gas. (See p. 17.)

GAO found that the Executive Office of the President, especially the National Security Council, is the focal point for major international energy policy formulation. These issues are typically dealt with through an interagency task force, on an ad hoc basis. The issues are complex and usually involve such interrelated matters as national security, foreign relations, trade and international finance. Thus, it is clear that several departments, agencies, and offices need to be involved in developing an

approach to particular issues or problems and that the formulation of policy needs to be managed at the highest levels of Government. (See p. 7.)

A relatively small cadre of officials from key agencies and offices, including the Departments of Energy, State, Treasury, and Defense; the National Security Council; and the Central Intelligence Agency regularly participate in policymaking. The Office of Management and Budget, Council of Economic Advisers, Domestic Policy Staff, and Economic Policy Group also have significant roles. Other departments and agencies become involved to a lesser extent depending upon the specific issues involved.

When policy formulation is conducted by an interagency task force, one agency may be assigned lead responsibility or may share lead responsibility with one or more other agencies. At times, task assignments are made with particular agencies responsible for drafting different segments of an initial draft report. The lead agency may prepare all drafts for circulation to other concerned agencies.

The working level is typically under the purview of a Deputy Assistant Secretary. Levels of review depend on the importance of the issue and can include Assistant Secretaries, Under Secretaries, Deputy Secretaries, and Secretaries. Levels of review in the Executive Office of the President can include the National Security Council, Council of Economic Advisers, Economic Policy Group, and the Domestic Policy Staff.

Efforts to resolve interagency differences begin at the working level. If consensus cannot be achieved on all points, differences are referred to a higher level. It may not be possible to eliminate fully all differences before presentation to the President. In this event, policy proposals sent to the President recommending decisions identify specific agencies with particular recommended options and the rationale underlying each agency's position. Policy differences on major issues are decided by the President. (See p. 9.)

GAO's review shows that U.S. international energy policy formulation is essentially an ad hoc process. This does not mean that particular policy studies, when viewed separately, are narrow in scope. However, the danger of an ad hoc policy formulation process is that it may result in policies that, overall, are inconsistent, insufficiently coordinated, and based upon inadequate analyses. The fact that the same offices and individuals are frequently involved in formulating U.S. international energy policy reduces the likelihood of this occurring. (See p. 13.)

Because the Executive Office of the President, particularly the National Security Council, is the focal point for directing international energy policy formulation, there are important implications regarding the ability of Congress to exercise its oversight responsibilities. To the extent that Congress wants to examine the adequacy of the policy formulation process and the resulting policies, it is clear that focusing on the activities of Department of Energy alone, or even Energy and other key departments (such as State, Treasury, and Defense) is not sufficient. (See p. 15.)

AGENCY COMMENTS

The National Security Council reviewed the draft report and made a coordinated administration response. Its comments are incorporated as appropriate throughout the report and are presented in total in appendix II. The National Security Council differed with the GAO conclusion that the formulation of international energy policy is essentially ad hoc. GAO, however, found that the explanation was unconvincing and that to some extent it further confirmed GAO's findings. (See p. 14.)



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ABBREVIATIONS

CIA	Central Intelligence Agency
DOE	Department of Energy
FEA	Federal Energy Administration
GAO	General Accounting Office
NSC	National Security Council
OMB	Office of Management and Budget
OPEC	Organization of Petroleum Exporting Countries

CHAPTER 1

INTRODUCTION

Since the 1973 Arab oil embargo, the United States has recognized its dependence on imported petroleum and its resulting vulnerability to oil supply interruptions. It has attempted to develop energy policies and strategies to cope with this dependency and vulnerability. Public Law 95-91 (Aug. 4, 1977) consolidated Federal Government energy functions into the Department of Energy (DOE). The Congress declared that this reorganization would promote more effective management of Federal energy functions and provide a mechanism for formulating and implementing a coordinated national energy policy.

The Act contains a provision that DOE, in coordination with the Secretaries of State, Treasury, and Defense, establish and implement international energy policies directly affecting research, development, utilization, supply, and conservation of energy in the United States. It authorizes DOE to undertake activities involving the integration of domestic and foreign energy policy, including providing independent technical advice to the President on international negotiations involving energy resources and technologies or nuclear weapons issues. It also provides that the Secretary of State shall continue to exercise primary authority for the conduct of foreign policy relating to energy and nuclear nonproliferation, pursuant to policy guidelines established by the President.

This provision, as a result of congressional initiatives, greatly enhanced the role of DOE in the international energy policy area compared with that of DOE's principal predecessors, the Federal Energy Administration (FEA) and the Energy Research and Development Administration.

Congress intent in placing this provision in the law was to ensure that DOE would have a central role in, but not dominate, the policy formulation process. Congress recognized that the formulation of sound international energy policies would require the active involvement of other agencies and departments and the Executive Office of the President.

The Nuclear Non-Proliferation Act (Public Law 95-242, Mar. 10, 1978) further delineates DOE and State responsibilities in at least two areas of international energy policy formulation. It states that the United States shall initiate a program to cooperate with developing countries for the purposes of (1) meeting the energy needs required for the development of such countries, (2) reducing the dependence of such countries on petroleum fuels, with emphasis given to using solar and other renewable energy resources, and (3) expanding the energy alternatives available to such countries.

As an integral part of the overall program, DOE is authorized to initiate an exchange program of U.S. scientists, technicians, and energy experts with those of developing countries to implement the purposes of the act. DOE is instructed to do this under the general policy guidance of State and in cooperation with the Agency for International Development. The law stipulates that the Secretary of State, under the direction of the President, shall ensure the coordination of energy assistance to developing countries with related U.S. overseas activities.

The Nuclear Non-Proliferation Act also states that the Secretary of State shall have the lead role in policy negotiations concerning any proposed subsequent arrangement to a nuclear cooperation agreement that involves contracts for sale of enriched uranium and enriching services, government-to-government sales, and retransfers of nuclear materials.

Nevertheless, the issues addressed in formulating international energy policies are complex. Thus, they are frequently approached in the context of, and by a decisional process associated with, other interrelated matters, such as national security, foreign relations, and international trade and finance.

KEY AGENCIES THAT FORMULATE INTERNATIONAL ENERGY POLICY

The Secretary of Energy serves as principal energy adviser to the President. Within DOE, the Office of the Assistant Secretary for International Affairs has primary responsibility for developing, formulating, implementing, and assessing international energy policies. The Office of the Assistant Secretary for Policy and Evaluation is responsible for recommending DOE's overall policy direction, coordinating analyses and evaluations of policies and programs, and ensuring that international policy is integrated with domestic policy. These two offices coordinate with each other, with other appropriate DOE offices, and with other executive departments and agencies.

The Secretary of State has primary authority, under the President's direction, for the conduct of foreign policy related to energy. This authority not only comes from Public Law 95-91 but also derives from the Secretary being the cabinet officer responsible for advising the President on foreign policy and for coordinating U.S. overseas activities. Furthermore, the Secretary is the ranking member of the President's Cabinet and a member of the National Security Council (NSC). In perspective, energy issues are only one facet in the formulation of U.S. foreign policy.

Within State, key offices for energy matters include the Under Secretary for Economic Affairs and the Bureau of Economic and Business Affairs. Also involved are the Under Secretary for Security

Assistance, Science and Technology; Bureau of Oceans and International Environmental and Scientific Affairs; Policy Planning Staff; and pertinent geographic bureaus. The Bureau of Economic and Business Affairs includes the Office of Fuels and Energy, which has primary responsibility for preparing substantive analyses on non-nuclear energy issues and for developing State's position on such policies in coordination with other State offices and with other Government agencies.

In commenting on our draft report, NSC advised us that the State Department reorganized the Bureau of Economic and Business Affairs and that the Office of Fuels and Energy is now the Office for International Energy Policy under a Deputy Assistant Secretary.

The Secretary of the Treasury is the administration's chief economic spokesman and has primary responsibilities for formulating and recommending domestic and international financial policies which will affect the U.S. economy. Consequently, a major interest of the Treasury in international energy policy studies is to ensure that financial and economic factors are considered. The principal offices in this area are the Under Secretary for Monetary Affairs and the Assistant Secretaries for International Affairs, Economic Policy and Tax Policy. The Office of International Energy Policy, under the Assistant Secretary for International Affairs, is responsible generally for evaluating and analyzing international energy policy issues and for coordinating them with appropriate Treasury Department and executive agencies.

The Secretary of Defense serves as the President's principal cabinet adviser on national defense and he also serves as a member of the NSC. Thus, he is concerned with the security of the energy supply and the formulation of other international energy policies that affect national security. The principal Defense offices concerned with international energy issues are the Under Secretary of Defense for Policy and the Assistant Secretary for International Security Affairs. The latter office has primary responsibility and works closely with other appropriate Defense agencies and offices and other executive agencies. Because of national security issues, the Chairman of the Joint Chiefs of Staff, who is the principal military adviser to the NSC, is also involved.

The NSC plays an important role in the formulation of international energy policy. This role derives from the function of the NSC, which is to advise the President on the integration of domestic, foreign, and military policies pertaining to national security so as to enable the military services and other Government departments and agencies to cooperate more effectively. Since many international energy policy decisions are pertinent to national security, the NSC is necessarily involved.

Formulating international energy policies is a complex process and involves many other departments and offices, including the Office of Management and Budget (OMB), Domestic Policy Staff, Economic Policy Group, Central Intelligence Agency (CIA), and the Department of Commerce. Other departments and agencies become involved depending upon specific issues. (See app. I for organization charts and a more complete discussion of the principal departments and offices involved in the formulation process.)

OBJECTIVE, SCOPE, AND METHODOLOGY

We made this review to determine how U.S. international energy policies are formulated and coordinated within the executive branch. During the past year, Congress has expressed interest in determining how the law establishing the Department of Energy is working.

We examined the way U.S. international energy policies are formulated and coordinated within the executive branch, especially the

- key departments, agencies, and offices involved;
- level of officials involved (from the working level through review levels to final decisions);
- coordination within and across agencies; and
- process for resolving differences and making policy decisions.

At the start of the review, we concentrated on the Departments of Energy, State, Treasury and Defense, which were specifically listed in the DOE Organization Act as responsible for international energy policy formulation. We added the Department of Commerce to this group because of the importance of energy in industry and commerce. In the course of our review, we learned that other offices within the Executive Office of the President and interagency groups also have key roles; but, except for the NSC, we did not perform onsite work at these offices.

To obtain an understanding of policy formulation, we initially attempted to accomplish our review objectives through interviewing officials at these agencies and examining relevant agency files to determine if records and documents supported the officials' views. However, not only was it difficult to schedule interviews with appropriate agency officials, but when interviewed, the officials spoke in broad general terms and not with the specificity and candidness expected.

As a result, we selected specific international energy policy issues to examine in detail and requested the agencies to make the files relevant to these issues available for our examination.

The issues were selected from a larger list of issues identified by agency officials as being significant during our initial interviews. From this list, five issues were chosen on the basis of (1) substantive importance, (2) representativeness in cutting across the broad spectrum of international energy policies, and (3) likelihood that each of the five departments selected for the initial review work would be involved in the policy formulation process on some of the issues. The five issues involve the formulation of U.S. policy concerning:

- Vulnerabilities to petroleum supply interruptions.
- Long-term national security strategy on imported oil prices.
- The export of U.S. oil and gas production equipment and technology to the Soviet Union.
- World Bank initiatives to assist in financing oil and gas exploration and development in oil-importing developing countries.
- The role of gas imports relative to the Nation's future sources of gas.

Admittedly not all significant international energy policy issues (e.g., U.S. policy regarding nuclear nonproliferation and the International Energy Agency) are represented by the five issues selected, but we believe the issues we examined in depth are among the more important and are sufficiently distinct from one another to represent important aspects of the policy process and to provide a firm basis for describing the subject area. We also briefly reviewed files and documents made available to us on a variety of other important international energy issues (see ch. 2), which provide additional support for our description of how the process works.

Limitations were placed on our review by the executive branch; some of the staff were uncooperative and hampered our work. In certain instances we were not given files relating to the decision-making process and variations in that process. Some officials involved in the process were unwilling to discuss the details of individual decisions. These limitations prevented us from thoroughly analyzing the roles of and relationships between executive agencies and divisions within agencies.

Months slipped by as agencies defined their positions and otherwise were unresponsive to our requests for certain records and files. Because of this problem, our description of how policy was formulated, even for the five specific issues, may not be complete in all respects.

We believe, however, that sufficient materials were examined to form a basis for describing how U.S. international energy policies are formulated and that the process described in this report is substantially accurate.

CHAPTER 2

OBSERVATIONS ON THE OVERALL PROCESS OF U.S.

INTERNATIONAL ENERGY POLICY FORMULATION

Our review shows that the focal point for major international energy policy formulation is the Executive Office of the President, especially the NSC, and that such policy formulation is typically dealt with through an interagency task force on an ad hoc basis. The issues addressed are complex and are frequently approached in the context of, and by a decisional process associated with, such interrelated matters as national security, foreign relations, trade, and international finance. Thus, it is clear that several departments, agencies, and offices need to be involved in developing an approach to particular issues or problems and that the formulation of policy needs to be managed at the highest levels of government.

OVERSIGHT OF POLICY FORMULATION

Our examination of how policy was formulated on five major international energy issues is summarized below. (See ch. 3 for an extended discussion.)

1. Vulnerabilities to petroleum supply interruptions. According to the documents we examined, the OMB initiated policy formulation on this study; it did so, in part at least, because of its dissatisfaction with previous policy formulation in this area that had been led by the FEA. The NSC provided overall direction. State and Defense had lead role responsibilities for the interagency analysis and initial drafting of reports in separate assessment areas.
2. Long-term national security strategy on imported oil prices. The NSC initiated policy formulation and directed the study. DOE had lead role responsibility.
3. Export of U.S. oil and gas production equipment and technology to the Soviet Union. Policy formulation was divided into two stages. In the first stage, the principal question was whether the United States should establish controls on exports. Under the auspices of the NSC, policy formulation was initiated; NSC also directed and assumed lead role responsibility for this stage. In the second stage, the policy focus included an examination of how controls on technology exports could affect Soviet energy production and, in turn, the global energy situation. Also to be examined were foreign policy, trade, and national security implications of oil production technology exports. Policy formulation, we understand, was an outgrowth of a Cabinet meeting in which State, Commerce, and Defense played major roles. The NSC directed the effort

and lead role responsibilities were divided among CIA, State, Energy, and Defense.

4. World Bank initiatives to assist in financing oil and gas exploration and development in oil-importing developing countries. Records made available to us did not disclose how policy formulation was initiated. Treasury directed policy formulation and had lead responsibility for most of the period examined. The Economic Policy Group and the NSC were involved during part of the period.

5. The role of gas imports relative to the Nation's future sources of gas. As near as we could determine, DOE appears to have initiated policy formulation in terms of the policy as stated by the Secretary of Energy in a January 1979 speech. However, this speech rested in turn on several other policy formulation efforts that were a result of Presidential initiatives. These include an NSC-directed study of U.S.-Mexico relations, and an interagency study of the role of liquefied natural gas. State had lead role responsibility for the overall study of U.S.-Mexico relations, while DOE had lead responsibility for the energy component of the study. DOE had overall direction and lead role responsibility for the liquefied natural gas study.

As discussed in chapter 3, the initiation of policy formulation on vulnerabilities to petroleum supply interruptions and the World Bank initiatives began before DOE became an operating entity (i.e., October 1, 1977). However, we believe that these studies are also useful for generalizing to the overall process since the policy formulation process continued well beyond DOE's formal establishment.

Our observation on the importance of the Executive Office of the President is also supported by our interviews at the NSC, where we were told that the two major offices involved in the formulation of energy policy generally are the NSC and the Domestic Policy Staff. The former has principal responsibility for international energy issues, the latter for domestic energy issues. The two offices were described as the lead mechanisms for formulating policy options. Moreover, it was stated that the President would not review an agency policy study for action until it was reviewed by either the NSC or the Domestic Policy Staff.

The role of the NSC derives from the fact that many international energy issues have important national security considerations and from its statutory function to advise the President on the integration of domestic, foreign, and military national security policies. The Domestic Policy Staff's role is to formulate and coordinate domestic recommendations to the President. It assesses national needs and coordinates the establishment of national priorities,

recommends integrated sets of policy choices, provides a rapid response to Presidential needs for policy advice on pressing domestic issues, and maintains a continuous policy review of ongoing programs.

The Domestic Policy Staff was the key office involved in directing the work of an interagency task force that developed proposals and recommendations for the proposed National Energy Plan II. The plan is required by Section 801 of the Department of Energy Organization Act, which calls for the President to prepare and submit to the Congress a biennial comprehensive approach for dealing with the broad scope of the Nation's energy problems. The legislative history shows that Congress wanted this responsibility placed in the Executive Office of the President, not in DOE, to ensure that preparation of the plan would be coordinated with other key departments and agencies. The most recent plan was submitted to the Congress in May 1979. DOE was one of the task force participants, with responsibility for making impact assessments of policy initiatives devised by the task force.

NSC told us that it and the Domestic Policy Staff closely coordinate domestic and international energy policy formulation. Each office typically sends a representative to policy meetings held by the other office.

A dominant role for the Executive Office of the President, and particularly the NSC, is probably natural given the extent to which international energy issues are pervaded by national security and foreign policy considerations. Factors which need to be taken into account include the Nation's military preparedness, overall relations with other countries, balance of payments, foreign investments, and so forth. Obviously, DOE does not have the expertise or the mandate to formulate policy in these other areas. Moreover, although energy issues are highly significant, they must be balanced and weighed against other important policy interests. Therefore, it is probably inevitable that the Executive Office of the President act as a focal point for bringing the agencies together on an interagency task force basis to formulate policy and to arbitrate significant differences.

TASK FORCE APPROACH TO THE PROCESS

Our analysis shows that the process for formulating international energy policy involves many departments, offices, interagency committees, numerous officials from mid-level positions through cabinet-level secretaries, and high-level Executive Office officials, including the President himself.

We found that major issues involving policy formulation are frequently, perhaps even typically, dealt with by interagency task forces. Four of the five policy issues that we examined in detail were handled in this manner and the issue concerning the role of gas imports was supported by several interagency task force efforts.

A relatively small cadre of officials from key agencies and offices, including DOE, State, Treasury, Defense, CIA, and NSC, regularly participate on the task forces. The CIA is not specifically authorized by statute to engage in policy formulation, but participants rely heavily on it for information and analysis crucial to the examination of policy options and the making of policy recommendations. The OMB and the Council of Economic Advisers are also frequent participants, and other departments and agencies become involved depending upon the specific issues involved.

The actual idea and suggestion to initiate NSC studies arises from a variety of sources--the President, NSC staff, other offices within the Executive Office of the President, and other departments and agencies. Energy and State are constantly conducting analyses of international energy developments. These studies may identify issues which require policy action, which in turn may lead to an interagency task force. Alternatively, cabinet-level officials themselves often decide that a question needs addressing. This may result in either an immediate decision on policy or the establishment of an interagency task force to examine the matter.

If an issue originates outside the NSC, it may be presented to the NSC either formally or informally to determine whether it is sufficiently important for an interagency study. If the NSC's response is positive, it contacts likely participants to discuss study objectives, who should participate, and in what capacity. NSC then distributes a formal memorandum announcing establishment of a task force and designating the participants, overall objectives, and target date for completion.

NSC monitors the task force review through meetings, phone calls, memorandums, and review of draft papers to determine the soundness and completeness of the effort. If deficiencies are noted, the NSC may formally recommend expanding the scope of the study. NSC staff may assume responsibility for preparing the overview draft report and policy recommendations, which are to be addressed by participating cabinet-level officials at meetings of the Special Coordination Committee or the Policy Review Committee of the NSC. When a policy review reaches this stage, it may contain conflicting views that the agency participants have not been able to resolve. If the Special Coordination or Policy Review Committee cannot fully resolve these views, their differences will be incorporated into any report that goes to the President.

The above process does not mean that DOE or other agencies do not perform policy assessments involving international energy considerations either on their own or in interagency task forces apart from the auspices of the NSC. They do. Not all international energy issues have an immediate or direct national security focus. Any agency can study an issue before elevating it to the level of the NSC. However, for a significant international energy policy proposal to become official U.S. policy, it must as a general rule secure the review of the NSC.

The roles of other offices within the Executive Office of the President, such as OMB, the Council of Economic Advisers, and the Economic Policy Group, apparently vary with the issue, but include (1) initiation (by suggesting or directing studies), (2) critique (of the products of studies at the various stages), and (3) recommendations (concerning policy actions to be taken as the results of policy studies). The OMB and Council of Economic Advisers participated in four of the five issues examined in depth in this report, and the Economic Policy Group participated in at least one.

OMB plays an important role via its functions of budget formulation and review and evaluation of program objectives. According to an NSC official, about one-third of the international energy economic studies result from OMB's spring and fall budget review process. As discussed in chapter 3, OMB had a key role in initiating policy formulation on one of the five issues we examined. Our examination of files on other issues shows that OMB also has a key role in the formulation of energy policy, both domestic and international. Some of its reviews into the basis of proposed policies are very detailed and probing.

The Economic Policy Group's role derives from its mission to act as the exclusive vehicle for coordinating the formulation, execution, and presentation of the administration's international and domestic economic policies. Thus, it should be involved in any international energy policy issue that may substantially affect economic policy. A representative of the NSC regularly participates in meetings of the Group.

Concerning the level of involvement by agency officials, our review shows that the working level is typically headed up at the Deputy Assistant Secretary level or one or two positions below (i.e., director of an office or suboffice under the Deputy Assistant Secretary). Levels of review depend on the importance of the issue and can include Assistant Secretaries, Under Secretaries, Deputy Secretaries, and Secretaries. Levels of review in the Executive Office of the President can include the NSC, OMB, Council of Economic Advisers, Economic Policy Group, and the Domestic Policy Staff.

When policy formulation is conducted by an interagency task force, one agency may be assigned lead responsibility or share lead responsibility with one or more other agencies. At times, tasking assignments are made with particular agencies responsible for drafting different segments of an initial draft report. The lead agency directing the entire effort may then prepare a summary draft paper. On other occasions, the lead agency may prepare all drafts for circulation to other concerned agencies.

Efforts to resolve interagency differences begin at the working level. If consensus cannot be achieved on all points, differences are elevated to a higher level. It may be impossible to eliminate fully all differences before presentation to the President. In this event, policy recommendations to the President typically identify agencies with particular options and outline the rationale underlying each agency's position. Policy decisions on major issues are decided by the President.

Files and documents we examined indicate that the President is considerably involved in the process of policy formulation for international energy issues. For example, an NSC official told us that whenever the Policy Review or Special Coordination Committees meet, a summary memorandum is prepared for the President informing him of major conclusions reached and any significant differences which were not reconciled. When either of these Committees is prepared to make policy recommendations, a decision paper is prepared for the President. If any agency has a strong opposing view, this is explained in the paper. Again, the President makes actual policy decisions, not the Policy Review or the Special Coordination Committees.

Apart from the NSC process, our review of documents and files on other issues shows that detailed briefings and action memorandums are transmitted to the President from cabinet secretaries and high-level Executive Office officials. Some of these merely provide background information on policy issues or describe actions being taken to deal with a situation. Others discuss alternate policy options and include recommendations for action. Sometimes a memorandum is from a single official; on other occasions a group of cabinet secretaries and Executive Office officials co-author a memorandum.

Apart from the frequent use of interagency task forces to formulate international energy policy on major issues and the important role of the Executive Office in the process, DOE and State are the principal agencies involved in day-to-day monitoring and analyses of international energy issues across the broad spectrum. Our review shows there is regular and close coordination between the departments in these activities, including joint discussions and negotiations with energy officials from foreign nations and international organizations and exchange and/or joint drafting of papers, memorandums, and overseas cables on policy issues and proposed

policy actions. Concurrences and approvals are frequently sought within each department and, depending upon the issue and its importance, at other agencies.

While initiatives occur from each department, DOE advised us that State has the final responsibility for coordination on international energy matters. DOE is much more independent than its predecessor, FEA, but still feels it necessary to secure State's comments on any serious policy statement that it considers issuing. State continues to exercise a lead role in such areas as formulation of policy regarding pricing by the Organization of the Petroleum Exporting Countries, initiating bilateral energy projects and agreements with other countries, and policy issues concerning retransfers of spent nuclear fuel for reprocessing.

AD HOC APPROACH TO THE PROCESS

Our review indicates that policy formulation is essentially conducted ad hoc. Policy formulation studies are typically targeted on particular issues and arise in response to specific problems and needs. Various officials we interviewed stated that this is the way the process works, and files and documents made available to us support this view.

An ad hoc approach does not mean that particular policy studies, when viewed separately, are narrow in scope. Each of the five policy issues we examined involved consideration of a wide variety of factors and circumstances. Analysis may require gathering and compiling new information that is difficult to secure. Complicated econometric analyses may be necessary. Despite the best efforts, significant unknowns or uncertainties may still remain; the pros and cons of competing goals and objectives still have to be weighed and balanced in trying to arrive at policy recommendations.

Thus, it is not surprising that many policy formulation efforts are focused on specific problem issues. However, if a policy formulation process is generally conducted ad hoc, the resulting policies in totality may be inconsistent, insufficiently coordinated, and based upon inadequate analyses. The fact that the same agencies, offices and individuals are frequently involved in formulating U.S. international energy policy reduces the likelihood of this occurring. Nevertheless, it would seem essential that periodic comprehensive analyses be conducted that look at all major policies from a broad overview perspective to determine whether they are consistent, coordinated, based upon adequate analyses, and likely to achieve the more broadly stated goals and objectives of the administration.

We did not find evidence of policy analyses designed either to develop an overall integrated set of international energy policies or to assess whether existing policies comprise an integrated whole.

We were told by certain DOE officials that there has been a virtual absence of such policy formulation within DOE. For example, DOE had not sought to develop, much less achieve, a comprehensive international energy supply strategy designed to diversify U.S. dependence on foreign sources of oil. We examined memorandums in the files which supported this view and were addressed to a high-level policy official urging that DOE get about the business of developing such a strategy.

We were also advised that DOE has no inventory and/or list of U.S. international energy policies already in effect or being developed. We were told that DOE has dealt largely with emergency-type policy issues but that it hopes to get into longer term problem-type analyses in the future as requested by the Secretary. DOE officials told us that it has not developed clearly defined milestones and other criteria for evaluating its progress toward fulfilling its international energy policy goals and objectives. According to the Office of the Assistant Secretary of International Affairs, "inherently international activities are not governable by milestone measurement applicable to more controllable activities." The Office also said that it has not prepared any studies (memorandums, internal reports, etc.) which assess progress made toward fulfilling its goals and objectives.

State officials advised us that international energy policy formulation is conducted ad hoc. State officials said that it would be appropriate if DOE and State could develop long-term policies. An NSC official told us that it purposely tends to avoid broad overall policy studies in favor of objectives, procedures, and plans for specific topics.

The fact that many agencies are involved, and responsibilities both overlap and vary depending upon the issue, points to the necessity of having some overall centralized procedure for controlling the policy formulation process. There is a focal point for the process in the Executive Office of the President, especially the NSC. Given the importance of the NSC in the hierarchy of the executive branch and its location within the Executive Office, it is well positioned for making its influence felt. However, an NSC official has stated that it purposely avoids conducting overall policy analyses.

In commenting on our draft report, NSC said that our criticism that the formulation of international energy policy is ad hoc seems to depend on the assumption that five discrete interagency studies we examined are fully representative of the process of international policymaking. NSC advised us that, during 1979 and the first half of 1980, comprehensive international energy strategies emerged from executive branch preparations for and debate at the International Energy Agency's frequent meetings and the Tokyo (1979) and Venice (1980) Economic Summit meetings and that, although the elements of this strategy are individually identifiable, collectively they represent a cohesive, comprehensive policy. As previously

shown, however, our conclusion that the process is ad hoc rests on more than the five discrete cases. Moreover, while international energy strategies may have emerged in preparing for International Energy Agency and summit meetings, this approach confirms that policy is developed as needed as opposed to establishing a policy formulation planning process which seeks to develop an overall integrated set of policies independent of reacting to individual events. NSC comments are provided in total in appendix II.

CONCLUSIONS

The law creating DOE assigns it a central role in the formulation of international energy policies directly affecting energy in the United States, while confirming the State Department's primary role in the conduct of foreign policy related to energy. The legislative history shows that Congress did not intend for DOE to dominate the process; rather it expected that the formulation of sound international energy policy would require the active involvement of many agencies and offices, as well as the Executive Office of the President.

International energy issues are highly significant but not necessarily overriding; they must be balanced against other important policy interests both energy and non-energy. Also, the process by which these policies are formulated is complex and is frequently made in the context of, and by a decisional process associated with, such interrelated matters as national security, foreign relations, trade and international finance.

Our review shows that the process by which international energy policies are formulated does in fact involve many agencies and that it is frequently accomplished by interagency task forces. The focal point for the formulation of major international energy policies is in the Executive Office of the President, especially the NSC. It is clear that several departments, agencies, and offices need to be involved in developing an approach to such complex issues and that the formulation of policy needs to be managed at the highest level in Government.

U.S. international energy policy formulation is essentially an ad hoc process. This does not mean that particular policy studies when viewed separately are narrow in scope. However, the dangers of an ad hoc policy formulation process are that it may result in policies that overall are inconsistent, insufficiently coordinated, and based upon inadequate analyses. The fact that agencies, offices, and individuals involved in formulating U.S. international energy policy are frequently the same reduces the likelihood of this occurring.

Because the Executive Office of the President and particularly the NSC are the focal points for directing the formulation of international energy policy, there are important implications regarding Congress ability to exercise its oversight responsibilities. To the extent that Congress wants to examine the adequacy of the process and the resulting policies, it is clear that focusing only on the activities of DOE and such key departments as State, Treasury and Defense is not sufficient.

CHAPTER 3

MAKING INTERNATIONAL ENERGY POLICY:

FIVE CASE STUDIES

The subject of U.S. international energy policies is so broad that it probably is not possible to select a small number of policies which fully represent the spectrum of significant policy issues. However, we believe that the five issues we selected are among the more important ones in terms of substance and are sufficiently distinct from one another so as to represent important parts of the policy process.

For several issues, discussion of the substantive aspects of policy formulation is abbreviated because of the sensitive nature of the subject material.

VULNERABILITIES TO PETROLEUM SUPPLY INTERRUPTIONS

In the summer of 1977, OMB, as part of its Spring Presidential Budget Review process for fiscal year 1979, proposed to the NSC that an assessment be made of U.S. vulnerabilities arising from dependence on petroleum imports. The FEA in 1976 had prepared supply interruption scenarios for use in planning the Strategic Petroleum Reserve, which analyzed the threats to petroleum supplies. OMB criticized this analysis on several counts, stating that it was hurried, preliminary, and piecemeal and had not been sufficiently coordinated with the Department of Defense. These criticisms were discussed with the President at an FEA budget planning session held in June, 1977, at which time the President directed that a petroleum supply vulnerability assessment be made.

Within FEA there was general agreement on the merits of making such an assessment but some concern about the degree of OMB involvement. According to one official, the vulnerability assessment update might be useful for long-range planning, but OMB was raising basic policy and program implementation issues that did not have significant impact on the 1979 budget decisions. The official was concerned that OMB might want to use the study to try to reverse the President's recent decision to expand the Strategic Petroleum Reserve to one billion barrels. He said that OMB should not be allowed to gain a large degree of control over FEA's policy development and program implementation process under the guise that they were budget issues. Another high-level official disagreed with several OMB criticisms of the FEA analysis.

Mixed feelings were also expressed in the FEA over which agency should lead the proposed new study. An official in the Office of Strategic Planning and Economic Analysis pointed out that the

expected creation of DOE might mean that DOE would have the lead role, in which case the study would have to be extended since DOE would not begin operations until October. This would be undesirable because of the importance of completing the study quickly. As an alternative, the official suggested that FEA could lead the study, but he noted that obtaining meaningful Government-wide participation might be easier if NSC were given the lead, assuming NSC wanted it. If the lead was imposed upon NSC at the behest of the OMB, the NSC might assign low priority to the project. The Director for the Office of Strategic Planning and Economic Analysis agreed with his subordinate's analysis and recommended to his superiors that NSC lead the assessment.

In mid July 1977, the OMB Director sent a memorandum to the Assistant to the President for National Security Affairs, herein after referred to as the National Security Adviser, informing him that the President had decided to have a petroleum supply vulnerability assessment made and had requested NSC to establish and lead an interagency task force for this purpose. The Director provided a detailed outline of the principal objectives and specific issues that the assessment should address.

At the end of July 1977, an interagency effort got underway to conduct the vulnerability assessment, involving FEA's Offices of Deputy Assistant Administrator and International Energy Affairs, State's Office of Fuels and Energy, Treasury's Office of International Energy Policy, and the CIA. There is no indication that the NSC, Defense, or other agencies were directly involved, notwithstanding OMB's request that NSC lead such an effort and its criticism that the FEA had not previously coordinated sufficiently with Defense. Moreover, OMB's memorandum to the National Security Adviser had suggested that the task force include Defense, the White House energy staff, OMB, and the Council of Economic Advisers, as well as DOE, State, and CIA.

In early August 1977, an interagency meeting was held involving participants from FEA, State, and Treasury to discuss the new vulnerability assessment approach. Evidence indicates that State had lead responsibility for this effort and had proposed an organizational outline of tasks to be performed that included the principal objectives recommended by OMB to NSC. Agreement was reached to complete drafts for interagency review by the end of August.

However, shortly before this deadline, the National Security Adviser sent a memorandum, at the request of the President, to the Secretaries of State, Defense, Treasury, and Energy; Directors of OMB and CIA; Federal Energy Administrator; and Chairman of the Council of Economic Advisers. The memorandum confirmed the interagency effort already underway but redefined the terms of reference for the study, revised the deadlines for completion, and listed the task force participants.

The memorandum clearly showed that the study was to be made under the auspices and direction of the NSC, with the Departments of State and Defense having important lead roles. State was to chair a working group that would analyze a set of international energy issues, and Defense was to chair a working group that would analyze a set of military contingency issues. Other agencies would participate according to their interests and at the direction of State and Defense. These two Departments were instructed to submit separate reports on their tasks to the NSC in early September, from which NSC would prepare an integrated overview report for its Special Coordination Committee to review.

Files we reviewed indicate that State's Deputy Assistant Secretary for International Resources and Food Policy and Policy Planning Staff were the most involved internally and that the Deputy Assistant Secretary had principal responsibility. He assigned his Director for Office of Fuels and Energy responsibility for performing, coordinating, and monitoring the intra/interagency assessment. The Bureaus of Near Eastern and South Asian Affairs, Intelligence and Research, and Politico-Military Affairs and the Executive Secretariat also were involved in various phases; DOE, CIA, the Council of Economic Advisers, and other agencies were asked for specific data.

At the end of September 1977, the Director, Office of Fuels and Energy, distributed a draft executive summary to all other task force participants for written and/or oral comments and clearances, to be channeled through the Assistant Secretary level.

At Defense, the Director for Policy Plans and NSC Affairs, under the Assistant Secretary for International Security Affairs, was in charge of the Defense-chaired working group. Records reviewed indicate that the group did not involve any other agencies in its analyses, with the possible exception of the State Department.

Defense made a formal assignment of tasks. The Director of the Office of Policy Plans and NSC Affairs notified six other Defense offices 1/ that they were participating in the Defense-chaired working group and sent them (1) a draft outline of designated tasking assignments, (2) target dates, (3) coordinators, (4) points of contact, and (5) a meeting date (August 24) to discuss proposed assignments.

1/ Offices under the Deputy Assistant Secretary for International Economic Affairs, International Security Affairs; the Joint Chiefs of Staff, Logistics Directorate and Plans and Policy Directorate; Assistant Secretaries for Manpower, Reserve Affairs and Logistics, and Program Analysis and Evaluation; and the Defense Intelligence Agency.

One week later, the responsible Defense offices responded to the Director of Policy Plans with drafts which were incorporated and organized into Defense's first rough draft. Several areas were identified that required additional information to improve the study and the appropriate offices were requested to provide supplementary data. Although evidence we obtained does not show that a final draft was made, it is assumed that this was accomplished and passed on to other participating task force agencies for review and comment by September 1977.

Principal offices representing some of the other agencies on the task force were DOE's Assistant Secretary for International Affairs and Treasury's office of International Energy Affairs.

Both State and Defense slipped their target dates for draft report completion by early September. The reports were completed by late September and forwarded to the NSC. During early October, the NSC distributed State's draft report to participating agencies for comment. NSC also informed the participants that a parallel report by Defense and an overview prepared by the NSC would be transmitted later. Before the comments were received, the Secretary of State asked State and Defense to make an additional substudy which broadened the assessment.

In early November, the NSC distributed its overview draft report for oral or written comments and criticism to the Director of the CIA; Deputy and certain Assistant Secretaries of Treasury, State, and Energy; OMB; and the Council of Economic Advisers. Participants were told that a revised version of the report would serve as the basis of discussion at a Special Coordination Committee meeting scheduled for November 15; however, the November meeting was postponed, as was a rescheduled December meeting.

In February the NSC requested State, in cooperation with Defense, CIA, and Energy, to chair a second additional substudy. This latter study, completed March 2, 1978, was cleared by agency participants at the Deputy Assistant Secretary level or higher, except at Energy where clearances were obtained at a lower level. The report was forwarded to the NSC for the Special Coordination Committee meeting.

The NSC on March 14, 1978, distributed an agenda paper to the task force participants to use in preparing for a rescheduled Committee meeting on March 24. The agenda paper contained principal issues and conclusions arising from portions of the interagency assessment. The participants were given 2 days to provide minor revisions and/or suggestions to NSC.

The Special Coordination Committee did meet on March 24. Although a Defense document indicates agency position papers were prepared for use at the Secretary level, attendees at the meeting

were at the Under and Assistant Secretary level or lower. Based on our evidence, the issues and options for discussion at that time were judged as not requiring cabinet attendance since the meeting did not present any really new policy options for reducing U.S. supply vulnerability. A major finding presented for discussion was that, for the near term, the United States is vulnerable to petroleum supply interruptions even with the International Energy Agency emergency oil-sharing plan. If interruptions occurred, the United States would have to absorb its proportionate share of the shortfall, distributing imports primarily through crude and product allocation regulations. By the end of 1980, the task force anticipated that the Nation would have greater protection and flexibility, primarily due to the planned completion of a 500-million-barrel Strategic Petroleum Reserve. The task force suggested that it was probably desirable to accelerate reserve purchases so as to more quickly reduce vulnerability and take advantage of current low prices. Accordingly, DOE was directed to analyze ways to accomplish this, including acquisition of temporary storage facilities in the United States, overseas, or afloat (in oil tankers), and to be prepared to address the subject at a subsequent Special Coordination Committee meeting.

Defense and State were authorized to proceed with plans and analyses in other areas, and Defense expressed concerns about the limited knowledge of domestic petroleum allocation in wartime. Participants at the meeting agreed with Defense that a study was needed in this area. Later, the NSC asked Energy to be the lead agency and set a target date of December 1978 for completing the study.

Because officials were unwilling to provide documents and to discuss the issue, it is not clear what final recommendations and actions ensued from the petroleum supply vulnerability assessment.

LONG-TERM NATIONAL SECURITY STRATEGY FOR IMPORTED OIL PRICES

On May 2, 1978, an NSC official sent the National Security Adviser a memorandum stating that the administration lacked a long-term strategy for oil imports and associated prices. The official noted that current U.S. strategy regarding OPEC pricing is approached on an ad hoc basis, quarterly or semiannually, with the result the United States may be stimulating price increases and future oil shortages. The official suggested that an analysis be made to consider the effect on the U.S. economy of gradual versus abrupt price increases for imported oil and the response to expected increases that would be in the best interest of the United States. These ideas had been discussed by the NSC with Treasury's Deputy Assistant Secretary for Commodities and Natural Resources, State's Deputy Assistant Secretary for International Resources and Food

Policy, and DOE's Assistant Secretary for Policy and Evaluation, and all agreed on the need for such a study. The National Security Adviser and the President concurred.

On May 12, 1978, the National Security Adviser distributed a memorandum to various agencies stating that the President required an examination of a long-term (approximately 10 years) strategy for imported oil prices. The Adviser said the task force should be composed of members from State, Treasury, DOE, Defense, OMB, Council of Economic Advisers, and CIA and the Assistant to the President for Domestic Affairs and Policy. He assigned the Secretary of Energy to chair the task force and outlined terms of reference for the study. A completion date of June 30, 1978, was set for a preliminary report containing recommendations for the Policy Review Committee to consider.

The Secretary of Energy assigned the Assistant Secretary for International Affairs to chair the review in his behalf. The first meeting of the task force was held on May 25. The Assistant Secretary proposed (1) that the task force organize into four subgroups, chaired by DOE, Treasury, State, and CIA each of which would address a major aspect of the study, (2) specific questions for each subgroup to answer and (3) specific target dates for completing stages of the assignment. His suggestions were agreed to.

Responsibility for DOE's work on the task force was largely assigned to two Deputy Assistant Secretaries in the Office of the Assistant Secretary for International Affairs. The Office of the Assistant Secretary for Policy and Evaluation also participated, including at the working level the Director of the Office for International Security Policy.

The Department of State was represented on the task force by the Deputy Assistant Secretary for International Resources and Food Policy. He, in turn, assigned responsibility to the Director, Office of Fuels and Energy.

The Treasury Department was represented by the Deputy Assistant Secretary for Commodities and Natural Resources. She assigned responsibility to the Director, Office of International Energy Policy.

The Department of Defense was represented by the Deputy Assistant Secretary for International Economic Affairs. She assigned responsibility to her Assistant for Economic Statistics and Forecasting.

The CIA was represented by the Director, Office of Economic Research. OMB was represented by the Deputy Associate Director for Special Studies. The Council of Economic Advisers was represented by one of its three members. Representing the Assistant

to the President for Domestic Affairs and Policy was the Associate Director for Energy and Natural Resources of the Domestic Policy Staff.

DOE's schedule for the assignment called for preparation and distribution of several draft reports to task force participants for review during the month of June and for meetings to discuss and incorporate the comments. On June 30, a final draft report would be sent to the NSC.

DOE gave us limited information on these proceedings which provided some evidence on how the interagency process worked. On June 8, the task force met to receive draft reports prepared by the four subgroups and to decide on the structure of the overview report for the Policy Review Committee, and on June 13, DOE distributed a first draft report to the task force for review.

On June 16, the task force met to discuss the first draft report. The Council of Economic Advisers, CIA, and OMB provided substantive written comments which included suggested changes in sections of the report, redrafting of a proposed section, and comments on the methodology. The comments of the Council of Economic Advisers were especially critical, stating that the task force's methodology for a major section of the analysis was basically flawed even though the conclusions appeared to be sound.

The extent to which DOE incorporated these comments in its next draft report is not clear, but on June 21, 4 days after receiving the comments, DOE distributed a final draft report to task force participants to secure comments of its principals. On June 26, the task force met to review and incorporate the comments.

The report itself included a recommendation on a U.S. oil price strategy but acknowledged that the recommendation was largely based on an economic analysis which required further testing because it did not consider whether political, security, or diplomatic considerations might affect the pricing strategy.

According to the task force schedule, the final draft report was to be submitted to the National Security Adviser on June 30, after which it would go to the Policy Review Committee. However, an NSC official told us that on June 29 an NSC staff member informed the Adviser that the report was technical, academic, narrowly focused, and omitted any assessment of policy tradeoffs and recommended that the study be expanded. The National Security Adviser concurred. As a result, the DOE Assistant Secretary for International Affairs sent the task force members a memorandum on July 7 announcing that additional information was required to complete the work and that the deadline for doing so had been extended to September. One of several justifications for the need for additional information by the Assistant Secretary was that the preliminary economic analysis

failed to consider whether intangible considerations--i.e., political, security, and diplomatic--would affect U.S. policy on oil prices. Included with the memorandum were additional questions to be answered by two new subgroups and one of the four original subgroups and a revised schedule for completing phases of the additional work. The memorandum did not identify which agencies would chair the new subgroups.

On July 11, the task force met to discuss the new assignments and the extension of the project. The DOE Assistant Secretary announced that State would chair one of the new subgroups and DOE the other. The original task force subgroup that was to prepare additional work had been cochaired by Treasury and CIA. However, Treasury was replaced by DOE, since Treasury did not want to continue as cochairman. The subgroups also agreed, we understand, to complete the additional work by mid-September, including distributing the draft reports to the participants, receiving comments, and meeting to discuss report results.

On July 28, the schedule was again revised to require the subgroups to submit their first report drafts to DOE by August 10. DOE would then prepare a new overview report and circulate it and the subgroup reports to the task force members on August 16. The task force would meet on August 22 to comment on the report. On September 5 a second draft would be circulated to the participating agencies for principals' review, and on September 8 the task force would meet to incorporate the agencies' comments. The final draft would go to the agencies for comments on September 12 and to the NSC on September 15.

Documents made available to us do not indicate whether divergent views existed and/or how they were resolved. However, both Treasury and the Council of Economic Advisers felt strongly that the task force analysis should address the possibility of a supply crunch in 1985; however, DOE was against including this in the work of the pricing task force.

However strong the differences and whatever their resolution, they did not prevent completion of the study. By September 12, DOE had a final draft report on oil price strategy for distribution to and final review by the participants. Comments were handled by phone in order to meet the September 15 deadline.

On September 20, 1978, the Secretary of Energy sent the final task force report to the NSC. As noted previously, the report was to have been presented to the Policy Review Committee for consideration. We were told by an NSC official however, that the National Security Adviser decided against this, since the conclusions of the task force did not recommend a change in existing U.S. policy.

Although DOE chaired the task force and played a lead role in directing and coordinating the assessment, NSC's involvement was dominant. It initiated the study; designated the lead agency, other participating agencies, and the terms of reference for the study; monitored its progress; ordered that the study be expanded when the proposed final product was judged inadequate; and determined that the ultimate final product would not go to the Policy Review Committee, even though that had been the NSC's original intention and order to the task force.

EXPORT OF U.S. OIL AND GAS PRODUCTION EQUIPMENT AND TECHNOLOGY TO THE SOVIET UNION

From the end of World War II until 1969, the United States considered exports which contributed to a foreign nation's economic potential as having potential military significance. The Export Controls Act of 1949 stated that it was U.S. policy to use export controls to exercise necessary vigilance over exports from the standpoint of their significance to the national security. During most of the 1960s, regulations established under this act provided that exports be denied to any nation or combination of nations threatening U.S. national security if such exports made a significant contribution to the economic or military potential of such nation(s) which was detrimental to the U.S. national security and welfare. As a consequence, the transfer of advanced technology to the Soviet Union and other Communist nations was prohibited and the export of many other goods required Government approval.

The Export Administration Act of 1969 provided a basis for a more narrowly defined standard for controlling exports for national security purposes. While restating the clause in the 1949 act cited above, it stated additionally that it is U.S. policy to restrict exports that would contribute significantly to the military potential of any nation or combination of nations which was detrimental to U.S. national security. Thus, exports which contributed significantly to a nation's economic potential but not directly to its military potential would not be restricted. In applying the 1969 act, the Government controlled or required review of exports of goods and technology that have a potential for being used in a manner detrimental to the national security. License applications for specific exports were not denied on national security grounds unless the exports were judged as making a significant contribution to the military potential of the country of destination that was detrimental to the U.S. national security.

The 1969 act provided a new policy standard for controlling exports, but changes in the application of export policy did not automatically follow. Action was required to make a determination that specific items under control could be removed from the list of controlled items. It was not until 1972 and 1973 that controls on many kinds of exports were removed. Controls remained in effect

on exports of oil and gas commodities to countries outside the Western Hemisphere until 1972, when they were removed for exports to non-Communist nations outside the Western Hemisphere. In 1973 controls were also removed on exports to most Communist nations, including the Soviet Union. Controls continued on exports of unpublished oil and gas technical data or technology, as they have on all unpublished technical data generally. But specific applications for oil and gas technology exports to the Soviet Union were approved when determinations were made that the exports would not make a significant contribution to its military potential.

The 1969 act also provided (as had predecessor legislation) that exports could be denied to nations for foreign policy reasons, but a State official advised us that, in practice, exports to the Soviet Union were not denied on this basis under the act.

On May 31, 1978, an NSC draft paper dealing with the control of exports of oil production equipment and technology to Communist countries was circulated to various executive branch agencies for comment. The paper noted a recommendation, which was made in a recently completed Presidential Review memorandum study, that energy-related technology transfers to Communist countries be given a separate and broader review. The paper recommended that until this was accomplished, controls should be established.

Policy formulation on this issue originated from previous agency and interagency studies, some made under the auspices of the NSC, and from Presidential decisions responding to some of these studies. Interagency studies initiated prior to 1978 had begun to examine the proposition that further relaxation of controls over exports of U.S. energy technology should be considered a positive factor on the grounds that it would alleviate and/or reduce the prospect of future global oil shortages. However, at the same time, the NSC had been studying the overall status of U.S.-Soviet and East-West relations in terms of comparative advantages and disadvantages, with a view to identifying ways to encourage the Soviet Union to act more moderately and cooperatively. In the spring of 1978, the administration was especially concerned about the Soviet military buildup and projection of military power in other areas of the world, expansionist activity in Africa and other lands, and repression of political dissidents at home and about the possible impact of these factors on the ability to achieve a new SALT agreement.

One outcome of the latter studies was the announcement in a major defense policy speech given by the President at Wake Forest University in March 1978 that the United States would use its "great economic, technological and diplomatic advantages to defend our interests and to promote our values." The President noted that over the past 20 years Soviet military forces "have grown substantially--both in absolute numbers and in relation to our own." In addition,

he said, "there has been an ominous inclination on the part of the Soviet Union to use its military power to intervene in local conflicts with advisers, with equipment and with full logistical support and encouragement for mercenaries from other Communist countries, as we can observe today in Africa." The President said that the United States was prepared to "cooperate with the Soviet Union toward common, social, scientific, and economic goals--but if they fail to demonstrate restraint in missile programs and other force levels and in the projection of Soviet or proxy forces into other lands and continents, then popular support in the United States for such cooperation will erode."

The NSC draft paper was to be discussed at a meeting at the White House on June 5 of the Ad Hoc Working Group on Oil Production Technology. This was an interagency committee specially created by the NSC in the spring of 1978 to make a recommendation on whether controls should be placed on exports of energy technology to the Soviet Union. The paper was to be presented at a subsequent meeting of the Special Coordination Committee.

Principal agencies in the Ad Hoc Working Group were Commerce, NSC, State, Energy, Defense, Treasury, and the CIA, with NSC as the lead agency. Based on records made available to us, it appears that the lead office within each agency was--State, Office of East-West Trade; Treasury, Office for Commodities and Natural Resources; Defense, a suboffice under the Assistant Secretary for International Security Affairs; Energy, Office of International Security Affairs under Defense Programs or the Deputy Assistant Secretary for Policy Development under International Affairs.

Concerning levels of review, at Treasury the Assistant Secretary for International Affairs and the Under Secretary for Monetary Affairs were briefed. At State, the Under Secretary level was involved in the initial response to the draft Special Coordination Committee agenda paper. At Defense, both the Secretary and the Deputy Secretary of Defense were briefed on the issue.

At the June 5 meeting, agencies expressed preliminary views on the NSC staff paper. The NSC asked participants to provide written comments on the paper. State and Treasury quickly responded with memorandums highly critical of the draft, under the respective signatures of the Director, Office of East-West Trade, and the Deputy Assistant Secretary for Commodities and Natural Resources. The memorandums presented positions developed at the staff level, not formal departmental positions. The Treasury memorandum said "we join with State, Defense, and Commerce in belief that the issue and facts in this paper should be examined much more carefully than has been done, before a decision is made."

The files also show that Defense's Office of International Security Affairs was strongly opposed to the draft paper's recommendation on much the same grounds as State and Treasury. This was communicated in writing to both the Deputy Secretary and the Secretary of Defense, arguing that the issue required far more rigorous analysis than had been made.

The documents we examined reveal little about NSC's response to the written comments. Rather than scheduling a meeting of the Special Coordination Committee, the Ad Hoc Working Group was scheduled to meet again on June 28. This meeting was postponed to July 17. A meeting of the Special Coordination Committee for July 27 was also scheduled.

However, on July 21, the Department of Commerce issued revised regulations, extending controls to most exports of oil and gas equipment and technology to the Soviet Union. These were published in the Federal Register on August 1. Thus, the recommendation proposed in the May 31 agenda paper had won out.

It is not clear how this decision was made, but it is clear that the Special Coordination Committee did not act on, much less approve, the NSC's proposed recommendation that the President authorize establishment of controls. Two officials who were interviewed discussed how the decision was made, but gave incomplete accounts. According to one official, the President made the decision in early July in the aftermath of the Shchcransky trials in the Soviet Union and before the Ad Hoc Working Group could convene for its scheduled second meeting; he said he did not know more specifically how or why the President made the decision. The second official said the President made the decision while in Europe with a few of his close advisers.

The President was in Europe from about July 14 through 16 for a state visit in West Germany and to attend the Bonn Economic Summit. On July 19, the New York Times carried a feature story dated July 18 stating that the President had "decided to place all American exports of oil technology to the Soviet Union under Government control and * * * to cancel the sale of a Sperry Univac computer to the Soviet Union for use by the press agency Tass." The article, based on conversations with unnamed White House officials, stated that "both decisions * * * were in response to the conviction and sentencing last week of Aleksandr Ginzburg and Anatoly Shchcransky, two Soviet dissidents." However, the White House officials "stressed that the oil-technology action in particular should be seen as giving Mr. Carter greater leverage in dealing with Moscow on many issues." The article said, "it appears that Mr. Carter followed the advice of Zbigniew Brzezinski, his national security adviser, and Secretary of Energy James R. Schlesinger, who advocated linking American trade to Moscow's performance on human rights."

As discussed earlier, the draft agenda paper had noted a recommendation made in a recently completed Presidential Review Memorandum study that controls not be established until a separate and broader review of energy-related technology transfers to Communist countries was conducted. This paper recommended that until such a review was conducted, controls be established.

There is no indication that the July decision to establish controls was accompanied by a decision to make a separate broad review of energy-related technology transfers to Communist countries. According to one official, the decision to make such a review was not made until August 1978, when the cabinet met to decide on the criteria for export controls. The establishment of controls was considered so sensitive that the cabinet held several meetings to decide on criteria for processing licensing decisions on export application cases that fell under the revised controls. At one meeting, it was pointed out that the "hidden issue" of whether it was in the interest of the United States to have the Soviets produce more or less oil had not been addressed.

The evidence indicates that sometime between the end of August and the end of September 1978 it was decided to make a study of whether the United States should seek to assist, impede, or remain neutral concerning Soviet oil and gas production and technological development. As discussed above, according to one account a proposal to make such a study was made at a meeting of the cabinet some time in August. The decision was that the study would be in the form of a Presidential Review Memorandum and it was announced in an NSC memorandum to the relevant agencies.

The study was to focus on (1) how oil technology export controls could affect Soviet energy production and, in turn, the global energy situation and (2) foreign policy, trade, and national security implications of oil production technology exports to the Soviet Union.

The NSC had overall direction for the study and issued terms of reference for it. These were subsequently revised, taking into account agency views and designating agencies to participate--CIA, State, DOE, Defense, Treasury, Commerce, and the Office of Science and Technology Policy.

CIA was designated as lead agency for three sections of the study, with sole responsibility for one section and in consultation with DOE on the other two. State, DOE, and Defense/Joint Chiefs of Staff were each designated as leads for one of the sections. Defense/Joint Chiefs of Staff were to have the sole responsibility for their section. State was to consult with both DOE and CIA on its assignment. DOE was to consult with Treasury, Commerce, and

CIA on its section. NSC, Commerce, Treasury, and the Office of Science and Technology Policy were not designated as leads for any of the six sections.

Most of the agencies were represented on the study's working group by officials with the rank of deputy assistant secretary, along with one or more supporting officials from their respective agencies. We could not determine whether other officials within each agency were involved. The one partial exception is Energy, whose draft was written by the Office of the Deputy Assistant Secretary for Policy Development in International Affairs and was submitted to the Assistant Secretary of International Affairs for approval.

Although Commerce was not designated a lead agency for any of the tasks and only one task called for the lead agency to consult with Commerce, Commerce's Assistant Secretary for Industry and Trade circulated a memorandum and draft study in early November concerning the subject of the Presidential Review Memorandum to the working group and officials at the assistant secretary level for each of the participating agencies, the Special Adviser to the Secretary of State, and two White House Special Trade Representatives. This was nearly 2 weeks before the scheduled deadline for completion of assignments by the lead agencies. This we believe, was an unusual effort to affect the outcome of the Presidential Review Memorandum.

The Assistant Secretary hoped the memorandum, accompanied by a thick draft report containing some of the analyses made by Commerce, would speed resolution of the study. In fact, the draft report sought to comprehensively examine many key factors of the issue and reached conclusions and recommendations on which policy options the United States should adopt. He urged the group to complete its work on schedule so that the United States could develop credible policies to present at high-level, U.S.-Soviet trade meetings scheduled for early December.

By mid-November the CIA had completed its contribution to the study and DOE had done so by early December. According to a Defense document of January 1979, the study was still in process. However, interviews with two officials in August and September 1979 indicated that the entire study was in abeyance or, for all practical purposes, had ceased. One high official said the study had not progressed very far because it became clear during the initial stages that two of the participating agencies were unwilling to deal with the facts of the issues.

To summarize, NSC had a lead role in policy formulation on this issue. An important policy question about the wisdom of establishing controls was superseded by the establishment of controls, followed by a study instituted to answer the question of whether controls were

desirable. In our opinion, a strong and continuing opposition on part of some agencies impeded, possibly prevented, completion of the Presidential Review Memorandum policy study.

WORLD BANK INITIATIVES TO ASSIST IN FINANCING
OIL AND GAS EXPLORATION AND DEVELOPMENT IN
OIL-IMPORTING DEVELOPING COUNTRIES

The policy issue concerned whether there was a gap in the capital market for financing exploration and development for oil and gas in the developing countries, and, if so, what policy measures might be taken by the U.S. Government to deal with the problem. More specifically, should the United States support expanded lending by the International Bank for Reconstruction and Development, also known as the World Bank, for oil and gas development in oil importing developing countries or lesser developed countries, 1/ especially lending for exploration.

The issue originated as a result of the quantum leap in oil prices during the 1973-74 Arab oil embargo. The less developed countries were confronted with greatly exacerbated financial problems in providing the energy needed to foster future adequate levels of economic growth.

The significance of the issue for the United States and other industrialized countries was that the development of indigenous oil resources in lesser developed countries could reduce the severe strain of energy imports on developing nations' payments balances and thus ease serious strains on the international finance system. At the same time, such development would add to and diversify overall world energy supplies and thus reduce OPEC's market power and the likelihood of future global oil shortages.

It is not clear how policy formulation on this issue was initiated--primarily because the executive agencies principally involved were unwilling to discuss the issue with us or provide the

1/ In terms of economic development nearly all OPEC members fall into the category of lesser developed countries. However, as oil-exporting countries, OPEC members have been the principal beneficiaries of higher priced oil. The greatly increased revenue they are receiving for their oil exports has dramatically enhanced their ability to finance economic development programs. Hence, it is useful to distinguish between oil-importing developing or lesser developed countries on the one hand and oil-exporting developing or lesser developed countries on the other hand. In this report, lesser developed countries refers primarily to oil-importing lesser developed countries.

relevant files. State officials were almost totally uncooperative. However, they did provide some documents on established U.S. policy but not on how that policy was developed, except for the paper noted below.

In comparison, Treasury officials have been more cooperative, but still highly selective, in what they have allowed us to review. The uncooperativeness of these agencies has detracted from our ability to describe all phases of the policy formulation process, not only how policy formulation was initiated.

State officials, in partial response to our request for access to records on how policy was formulated, prepared a brief paper entitled "Chronology of IBRD [World Bank] Programs." According to this document, during the Conference on International Economic Cooperation, 1/ problems of the lesser developed countries were discussed at length among developed and developing oil producers and consumers. Recognizing that venture capital, technology, and managerial know-how for exploring and developing conventional energy resources (i.e., oil, gas, and coal) resides primarily in the private sector, the Conference participants as well as the London Economic Summit 2/ agreed to devise a program for stimulating additional private sector investment in energy development projects in the lesser developed countries. As a result, the World Bank announced in July 1977 that it would seek to increase its annual lending for energy development projects to the \$500-million level by 1982.

This account is at best overly simplistic in describing how policy formulation on the issue originated. It says nothing about

1/ The Conference brought together 26 nations and the European Economic Community in a series of talks from December 1975 to early June 1977. The objective of the talks, as reported, was an attempt by the industrial countries to discuss with oil-exporting nations the implications of higher oil prices for the rest of the world. The agenda was expanded to include the full range of economic problems faced by lesser developed countries, resulting in a conference between industrialized countries of the Northern Hemisphere and developing nations of the south.

2/ The London Economic Summit was a meeting of the leaders of the world's major industrialized nations (the United States, Canada, Britain, France, West Germany, Italy, and Japan) on May 7 and 8, 1977. They met to discuss global economic problems in areas, among others, of trade, unemployment, economic growth, and energy and to seek agreements on programs designed to strengthen their own economies as well as to improve conditions for lesser developed countries.

how the process of policy analysis and debate was conducted within the U.S. Government nor does it describe exactly when or how policy formulation was initiated.

The earliest documents made available to us were from the Treasury Department, but they also reveal nothing about how policy was formulated for use in the Conference or the London Economic Summit. They do show that in April 1977 U.S. executive agencies were examining whether adequate financing was available for developing energy in less developed countries and, if not, what possible range of policy options could be considered for dealing with the gap. They do not indicate when or how examination of the issue originated. According to a Treasury official, the issue had been around since at least 1974. According to officials from several oil companies that we interviewed in early 1979, the general issue had been around for as long as 3 to 5 years. This means that policy formulation may have begun as early as the 1974-76 period.

April through July 1977 period

On April 14, 1977, a paper prepared by Treasury on approaches to assuring adequate investment in energy and raw materials capacity in developing countries was circulated to members of the National Advisory Council on International Monetary and Financial Policies. ^{1/} On April 15 the Council Alternates met to consider the paper. The meeting was chaired by the Treasury Assistant Secretary for International Affairs and attended by representatives from 10 agencies. None of the energy agencies (i.e., FEA, Interior, or the Energy Research and Development Administration) were represented.

The paper examined the question of whether there was adequate investment in energy and raw materials capacity in developing countries and, if not, what policy options should be considered for assuring adequate investment. The paper noted that, traditionally, the United States has relied generally on the private market to determine the level and pattern of natural resource development around the world. The market process, it said, should assure that, over time, adequate investment in new capacity will be undertaken.

^{1/} An interagency body responsible for coordinating U.S. participation in the international financial institutions as well as the policies and practices of all agencies of the U.S. Government which (1) make or participate in making foreign loans or (2) engage in foreign financial, exchange, or monetary transactions. These functions are vested in the President but have largely been delegated to the Council and Secretary of the Treasury, who serves as Council chairman. The Treasury Secretary is authorized to instruct representatives of the United States to international financial institutions.

However, the market process has been distorted in recent years by (1) an increasing uncertain investment climate, in part associated with increasing political risks, and (2) cartel actions, particularly in the oil market.

In the oil and gas area, the paper noted that the major effect of increased political risk is not in development projects but rather in deterring exploration and proving of hitherto undiscovered reserves. However, the World Bank does not, and should not in the future, participate directly in this phase of a project; the financial risks are simply too great. But the Bank's presence during early stages of contract negotiations and knowledge of the Bank's likely participation in the development phase of a project would help to reduce uncertainties about investment for both the host government and foreign company.

At the April 15 meeting of the Council Alternates, held to consider the merits of this position paper, the Treasury Assistant Secretary concluded that the paper did not contain sufficiently comprehensive analytical material on which to base decisions on the need for public-sector participation. He said that the paper raised issues about using the World Bank but these were by no means settled. Consequently, the paper was not sufficiently developed to pass on to the Council Principals for review. The Assistant Secretary asked that the paper be revised and that all attending agencies contribute to the maximum extent possible. He specifically asked that the Departments of Commerce and State participate.

Meanwhile, on May 4, 1977, the World Bank issued a report which, in part, proposed an expanded effort by the Bank in lending to the energy sector, including, for the first time, involvement in oil and gas production and exploration. The principal purpose was not so much to provide financing but rather, by the Bank's participation, to stimulate an increased flow of foreign investment into mineral exploration and production. The report noted that large-scale investments were required to develop nonfuel and energy minerals in developing countries. It also noted that exploration was a highly risky activity, not suitable for development bank lending. However, the report suggested that the Bank's presence at the exploration stage might help host countries and foreign investors to negotiate agreements. Under one approach, the Bank would participate in the negotiations leading to an agreement setting out respective rights and obligations regarding exploration and production. A second approach would provide a token Bank loan to the host country to help it finance a small portion of exploration activities jointly with the foreign sponsor, who would repay the Bank loan in case exploration was unsuccessful.

On May 17, 1977, the Council Alternates met to consider a revised draft (May 16) of the April 14 paper. This meeting was again chaired by Treasury's Assistant Secretary for International Affairs

and 10 agencies were represented, including FEA. The draft paper stated that it did not represent an agency consensus but did not describe in what respects consensus was lacking. The paper did show, however, that since the previous meeting the President had acted upon recommendations of the Economic Policy Group ^{1/} that had important implications for the Council's consideration of whether there was adequate investment in energy capacity in developing countries and, if not, what policy options should be considered for assuring adequate investment. The paper said that the President approved a unanimous recommendation by the Economic Policy Group that the United States support a general capital increase for the World Bank and that new initiatives for energy development be proposed in the context of this increase. These policy options had been discussed in the April 14 paper.

As in the earlier draft, the May 16 draft paper stated that the World Bank should not participate financially in the exploration phase but that its presence in negotiations between host governments and private foreign companies regarding agreement on exploration and development activities could be helpful. The paper did not suggest or discuss the possibility of the Bank providing token loans to help host countries finance small portions of their exploration activities. We were unable to determine the outcome of the May 17 Council Alternates meeting.

In early June, comments on the World Bank May 4 report were being drafted for use by the U.S. Executive Director at an upcoming Bank Board meeting. Treasury took charge of the drafting and circulated the proposed comments to other interested Council agencies for review. Treasury did not provide us with the proposed or final comments or directly related papers so that we could determine positions the United States took at the meeting and whether they differed from those developed in the April and May Council papers. Also, records made available to us on these matters do not show how they were coordinated with the U.S. position expressed at the Conference on International Economic Cooperation and the London Economic Summit.

In July the Bank met and approved financing of oil and gas development projects, but not exploration projects. Also, financing was initially to be on an experimental basis, with specific lending targets ruled out.

Documents and files made available to us for review do not indicate any further activity on this issue during the August to December 1977 period.

^{1/} An interagency body, operating at the cabinet level and chaired by Treasury, which acts as the President's vehicle for coordinating domestic and international economic policy.

January through July 1978 period

During the first half of 1978, various executive agencies were preparing for the administration's participation in the Bonn Economic Summit to be held mid-July. The Summit, one of a continuing series attended by leaders of the United States, Canada, United Kingdom, France, West Germany, Italy, and Japan was scheduled to focus on several subjects, including energy.

In February 1978, a National Advisory Council paper was prepared on assuring adequate investment in energy production in oil importing developing nations. The paper focused on or discussed possible initiatives to be taken at the Bonn Summit. We were unable to determine how the paper related to previous policy formulation on the subject, including the role of the World Bank.

At about the same time, the Special Representative of the President for Economic Summits, an official of the NSC, asked the DOE to prepare a draft Summit paper discussing how a \$1-billion special fund for energy would facilitate energy development for lesser developing countries and the results that would likely occur. DOE was to coordinate the paper with State and Treasury and secure agreement on the substance or an explicit spelling-out of differences of view. Thereafter, it was to seek concurrence from the Agency for International Development.

DOE prepared a paper on March 21, 1978, that posed three possible options: (1) a cooperative program in renewable energy resources, (2) a special fund for conventional energy resource development, and (3) a revolving fund to support energy resource exploration. The second option was designed to supplement current World Bank and regional development bank programs. It focused on projects to develop conventional indigenous energy resources other than oil and gas. The third option focused on exploration for new resources, especially oil and gas, and proposed establishing a revolving or self-supporting fund based on repayment that included a reasonable return on investment for successful discoveries.

Based on its comparative analysis, DOE recommended the first option. It cleared the paper with State and Treasury, sent it to the Agency for International Development for review, and then to the NSC. A revised version of the paper, organized around the first option, was cleared by State, Treasury, the Agency for International Development, NSC, and OMB in late April. Thus, the other two options were dropped.

The International Energy Agency's Executive Director circulated a paper, also in March 1978, suggesting energy proposals to be addressed by the Bonn Summit. One of these proposals was similar to the cooperative program in renewable energy sources that DOE and other executive agencies eventually agreed on. The

Executive Director also proposed that the World Bank continue to examine possibilities for promoting energy in developing countries and devote special attention to whether there was adequate financing for both exploration and development.

The idea of an expanded role for the World Bank was also promoted by at least two other countries in pre-Summit discussions. For example, in June, one country proposed that the Bank assess the adequacy of energy exploration efforts in developing countries and address financing requirements for energy exploration (as well as development), examine new approaches for meeting these financing needs, and make proposals for reaching appropriate levels of resource commitments. Both this country and another were interested in creating a new international fund administered by the Bank to finance oil and gas exploration in developing countries.

Files made available to us do not fully show what position the various agencies initially took in response to the proposals that the Bank expand its involvement in energy assistance to the developing countries, particularly for exploration, nor what forum was used for evolving a response. According to the information supplied by Treasury, the National Advisory Council did not meet on this issue during the March to July 1978 period. However, it seems likely that the NSC, through the Special Representative of the President for Economic Summits, provided overall direction for the position developed during this period.

Opinion within DOE was divided on the issue. The International Affairs office opposed a recommendation for some new type of exploration fund on the grounds that such a fund was not needed and would be uneconomical and a highly risky use of public funds. The Office of Policy and Evaluation did not fully share this view. The suboffice responsible for formulating a proposed policy and evaluation position recommended that the United States strongly support Summit backing for World Bank financing of hydrocarbon exploration.

In the month preceding the Summit, Treasury prepared two papers on Summit energy initiatives and lesser developing countries' energy investments, including the roles of the World Bank and U.S. bilateral programs. We were unable to determine what position Treasury took in these papers, since it would not make them available to us.

In June 1978, offices in DOE and State drafted a position paper for the Summit that, among other things, opposed the creation and administration of a new international fund by the Bank to finance oil and gas exploration in developing countries. The paper argued that (1) there was no conclusive evidence that lack of capital constrained energy exploration in developing countries, (2) risk exploration was not an appropriate use of public funds, and (3) the United States should not indicate it was prepared to commit additional funds for energy purposes, given problems of Congress in

meeting U.S. financial commitments to the Bank. The draft position paper adopted by the United States for the Summit was cleared by DOE, State, Treasury, and the Agency for International Development.

The position actually adopted by the Summit nations regarding the role of the Bank in financing oil and gas exploration represented a compromise between the U.S. position and that of certain other nations. The Summit communique stressed the need for improvement and coordination of energy assistance for developing countries. It suggested that the Bank explore ways to make its activities increasingly responsive to the needs of the developing countries and examine whether new approaches, particularly to financing hydrocarbon exploration, would be useful. Thus, a final decision on the Bank's role was postponed pending additional work.

August 1978 through January 1979 period

In August 1978, the DOE Deputy Assistant Secretary for International Policy Development proposed that the International Affairs office (1) reexamine the need for additional oil exploration in lesser developed countries and (2) determine a DOE position on a range of proposed options for dealing with the situation, assuming that a need for additional exploration was identified. The proposed study was dropped, however, according to a DOE official, because of opposition within the office.

Also during August, there was discussion within the World Bank on how to respond to the Bonn Summit request. The Bank considered initiating a study similar to its pre-Summit proposal that it finance lending for oil exploration in lesser developed countries and that a revolving fund be created to do the lending. Treasury prepared a draft paper expressing reservations over a fund for financing exploratory drilling. The paper was prepared just prior to a Bank meeting in September. Files made available do not reveal to what extent other agencies were consulted during preparation of or after completion of the paper nor do we know if the paper was used to instruct U.S. representatives to the Bank.

In early October 1978, a DOE official recommended that the Assistant Secretary for Policy and Evaluation meet with Bank officials. An action memo was drafted to be sent from the Assistant Secretaries for Policy and Evaluation and International Affairs to the Secretary of Energy recommending that he write to the President of the World Bank expressing interest in the Bank's efforts to finance exploration in lesser developed countries. According to a DOE official, the Assistant Secretary for Policy and Evaluation was amenable, but the action memo did not go forward because of opposition within the International Affairs office. The officials said the net result was that the Secretary of Energy never had the benefit of a fully staffed DOE position on a revolving fund proposal to finance exploration in the developing countries. Shortly after-

ward the Bank abandoned that proposal because of lack of support for the concept in the United States and other major industrialized nations.

The Bank then decided to seek approval to use a portion of regular Bank funds for exploration lending. On November 30, 1978, it issued a report to its Executive Directors proposing an expanded lending program to accelerate petroleum production in developing countries, including funding for exploration.

In December the Treasury Department assumed lead responsibility for preparing the U.S. response to the Bank proposal, using the National Advisory Council as a vehicle for coordinating an inter-agency position. Within Treasury, the Deputy Assistant Secretary for Commodities and Natural Resources was in charge.

At DOE the offices of International Affairs and Policy and Evaluation were actively involved during early December in developing a DOE position for interagency discussions. On December 14 the Deputy Assistant Secretary for International Policy Development provided Treasury with written comments based on analysis at the staff level. The comments represented a significant departure from International Affairs' previous views on the subject of financing of liquid hydrocarbon exploration, stating that the:

"Bank's report makes a case for increased Bank activity in LDC energy exploration and development. We see utility in Bank involvement in the pre-development as well as development phases. While opinions differ as to the contribution this program can make to total global supply, we believe it will be helpful at the margin to expanding world supplies and assisting the economic development of individual countries."

International Affairs said that it was prepared to support limited Bank involvement in exploratory drilling provided that the Bank's activities were structured to ensure that the Bank would be the "lender of last resort" and would facilitate increased private capital flows into oil and gas exploration and development in developing countries.

International Affairs was still concerned that the Bank might compete with private oil companies and/or commercial banks and that it might not be appropriate for the Bank to become involved in such a risky venture. In part, it was now prepared to support a limited role for the Bank in exploratory drilling if the program was set up so that the Bank would only be a lender of last resort.

As noted above, the comments sent to Treasury on December 14 reflected DOE views at the staff level position, not a formal position for DOE. After sending the comments to Treasury, the Assistant

Secretaries of International Affairs and Policy and Evaluation completed drafting an action memo and sent it to the Secretary recommending that he approve the proposed DOE position.

The action memo told the Secretary that most major oil companies regarded Bank involvement in the exploration field as unnecessary and perhaps harmful. The memo also said that because available information was difficult to interpret, the Bank had not demonstrated conclusively that there was a shortage of private capital for oil and gas exploration in developing countries but, the Bank's argument was the most convincing made to date. Notwithstanding the reservations, the memo recommended that the Secretary authorize DOE's support for the Bank's proposals--subject to several conditions. The Secretary approved the action memo, but made some modifications of his own. Most importantly he struck the proposed condition that the Bank act only as a lender of last resort.

The Treasury staff remained skeptical about the Bank's expanding its program to finance substantial amounts of geological and geophysical surveys and appraisal drilling and opposed its financing exploratory drilling.

On December 27, 1978, Treasury circulated to various Council agencies a draft position paper regarding the World Bank proposal. The paper was presented in the form of talking points to be used by the U.S. Executive Director at the Bank when the Bank Board met to act on the proposed expanded program. Treasury said the paper was to be submitted to the Council in early January and requested Council agency representatives to provide it with telephone comments by December 29.

The draft position paper said that:

- The United States strongly supports the Bank's expanded role in assisting developing countries to realize their energy resource potential, particularly for hydrocarbons.
- We believe the Bank's recommendations are reasonable, even though we may not concur in every detail.
- Over the next several years, it is clear that the most urgent need is to accelerate additional sector and survey work; therefore, the Bank should give highest priority to survey work.
- We are prepared to support limited Bank involvement in exploratory drilling, but believe that for the time being this must be approached on a case-by-case basis and depend on adequate survey results.

DOE and State provided Treasury with comments on the draft position paper. (It is not clear whether other agencies responded.) DOE said that it felt the United States should be more forthcoming in its support for the proposed program and specifically recommended that its support for exploratory drilling be less restricted. State adopted a similar position.

Treasury revised the draft paper, taking into account the comments it had received. The revised paper was discussed by a meeting of the Council Alternates held on January 3, 1979. Immediately before the meeting, DOE's Assistant Secretary for International Affairs sent a memo to the Treasury Assistant Secretary for International Affairs stating that DOE believed the U.S. Government should strongly endorse the Bank's proposals for expanded assistance in energy development, including lending for exploratory drilling.

Following the January 3 meeting, the draft position paper was to be again revised and circulated to the Alternates for comment. Files made available to us show that the paper was revised, but was sent to the Alternates for information and not for comment. There is no indication that the Alternates met again or that the Council Principals met to approve the position of the Alternates. However, on January 15, 1979, a final talking-points paper was issued for use by the U.S. Executive Director which strongly supported the Bank's expanded role in assisting developing countries to realize their energy resource potential, including exploratory drilling. On January 16, 1979, the Bank Board met and approved an expanded Bank program.

As the above account indicates, Treasury had a lead role in formulation of policy on the issue during the April-July 1977 period and August 1978-January 1979 period. This was a result, in part, of the Secretary of Treasury's responsibility for instructing representatives of the United States to international institutions and to the fact that Treasury chairs the National Advisory Council.

The Council was a principal mechanism for arriving at an inter-agency position on the issue. Treasury staff rather than an inter-agency Council staff apparently drafted the initial position papers for most, if not all, the papers addressed by the Alternates. Other agencies were not tasked to prepare specific sections of these papers but were asked to comment, either verbally or in writing, on draft Treasury position papers. Treasury staff prepared revised draft papers. Meetings of the Alternates were chaired by Treasury.

The Council, according to an official description, generally analyzes and discusses indepth each pending proposal, then takes a vote in reaching its position which is recorded in a document denominated as a National Advisory Council Action. However, minutes of the Council Alternates' meetings on the World Bank issue that were made available to us show that no formal votes were taken.

During the January-July 1978 period, NSC had the lead role for directing policy formulation on the issue, since policy formulation occurred in the context of possible initiatives for the Bonn Economic Summit.

Throughout the April 1977-January 1979 period generally, the agencies most actively participating in the process were Treasury, Energy, State, NSC, and, to a lesser extent, the Agency for International Development. In April and May 1977, the Economic Policy Group made recommendations to the President that had important implications for policy formulation on the issue.

Other agencies apparently became involved in reviewing position papers prepared for the Council Alternates, because of their membership or participation in meetings of the Alternates. These agencies included the Departments of Commerce, Labor, and Defense; Federal Reserve System; Export-Import Bank; OMB; Council of Economic Advisers; and Office of Science and Technology Policy.

The working level of involvement within the line agencies was basically headed up at the deputy assistant secretary level or one to two position levels below. For example, at Treasury the Deputy Assistant Secretary for Commodities and Natural Resources had principal responsibility for the issue, with staffing handled by the Office of International Energy Policy.

Other Treasury offices at the deputy assistant secretary level, such as the Deputy Assistant Secretary for Developing Nations, had opportunity, on occasion at least, to pass on papers prepared by the Office of International Energy Policy. The next principal level of review was the Assistant Secretary for International Affairs, who also chaired meetings of the Council Alternates held on the issue. There is no evidence in materials made available to us that other offices at the Assistant Secretary level were involved.

Since the Secretary of Treasury is responsible for providing instructions to U.S. representatives to the World Bank, he needs to review actions on policy positions proposed by the Council and make the decisions on what instructions to provide. The Secretary was also involved in policy formulation to the extent that the Economic Policy Group was involved.

Immediately before the January 16, 1979, meeting of the World Bank's Executive Board to vote on the proposed expanded Bank program, the Chairman of the Board of Exxon, in a letter to the Treasury Secretary, said that this issue implied a major change in the Bank's traditional role and involved such a sizable commitment of public funds that it should be entered into only after extensive industry comment and discussion. He hoped the United States could ensure such comment and discussion when the Bank considered the subject.

DOE's Deputy Assistant Secretary for International Policy Development, under the Assistant Secretary for International Affairs, was in charge of drafting initial position papers on the issue. Her office coordinated development of DOE's policy position with the Office of the Assistant Secretary for Policy and Evaluation.

The first level of DOE review comprised other Deputy Assistant Secretaries and/or the Principal Deputy Assistant Secretary for International Affairs. The next level was the Assistant Secretary for International Affairs and, on occasion, other Assistant Secretaries as well. In Policy and Evaluation, the first level of review was either the Principal Deputy Assistant Secretary or the Assistant Secretary. The Secretary of Energy participated in policy formulation by approving, in December 1978, a proposed Energy position on the World Bank issue, subject to certain modifications which he made.

It is difficult to comment on the participation of agency officials at State because of their unwillingness to provide relevant files and to discuss positions taken. However, documents examined at other agencies show that the office of the Deputy Assistant Secretary for International Finance and Development and the Deputy Assistant Secretary for International Resources and Food Policy, Bureau of Economic and Business Affairs, were actively involved in developing State's position on the issue. The latter Deputy Assistant Secretary participated in drafting the talking points on energy prepared for the Bonn Economic Summit. Other offices in State involved at least part of the time were Policy Planning and the Office of the Under Secretary for Economic Affairs.

ROLE OF GAS IMPORTS RELATIVE TO THE NATION'S FUTURE SOURCES OF GAS

On January 9, 1979, the Secretary of Energy, in a speech before the National Association of Petroleum Investment Analysts and the Oil Analysts Group of New York, informally outlined U.S. policy on future sources of gas for domestic use, including imports of natural and liquefied natural gas. The Secretary said that the United States should rely on domestic gas as much as possible to reduce dependence on oil imports, particularly since there is a surplus of natural gas. He emphasized that the United States should place the highest priority on developing domestic natural gas, including expensive Alaskan gas, before considering buying Canadian or Mexican gas or liquefied natural gas from abroad. This policy would require that domestic gas supplies freed by enactment of the Natural Gas Policy Act in 1978 be effectively absorbed by the market and that chronic surpluses of gas be avoided.

The foundation for this policy, the Secretary said, is the prospective availability and production of natural gas in the lower 48 States, which according to him, is expected to be 2 trillion cubic feet greater in 1985 than it would have been without passage

of the Natural Gas Policy Act. Such production may be able to maintain or enhance the present use of natural gas without resorting to gas imports.

Other sources of gas, as described by the Secretary in a hierarchy of decreasing marginal attractiveness, were:

--Alaskan gas, because it "will be a valuable offset to foreign oil imports as well as competitively superior to other supplemental sources of supply."

--Pipeline gas from Canada and Mexico, a medium-cost source. (When the speech was given, Canada provided almost 1 trillion cubic feet per year to the United States.) The Secretary also said, "We would welcome such additional supplies to the extent that they are reasonably reliable, are priced sufficiently attractive to maintain a market in the United States, and do not force the shutting-in of domestic production."

--Short-haul liquefied natural gas imports, domestically produced synthetic gas, and long-haul liquefied natural gas imports.

Overall, liquefied natural gas is a markedly unattractive alternative and synthetic gas is costly. The Secretary said that liquefied natural gas has appeared to be attractive because of price subsidization accomplished by (1) rolling in the cost with lower priced domestic gas, (2) direct subsidies to liquefied natural gas tankers, and (3) Export-Import Bank loans. Its cost may be no lower in the long run than that of domestically produced synthetic gas. Also, it is possibly an insecure foreign supply and may create balance-of-payment problems. The outlines of liquefied natural gas policy will emerge as a consequence of specific decisions.

The Secretary said that his speech did not represent a "policy statement," since such an action might require an environmental impact assessment. A DOE official said that the time needed to prepare such an assessment might seriously delay action on liquefied natural gas import applications pending before the regulatory arms of DOE. The speech was embodied in a major DOE directive entitled "Policy and Fiscal Guidance for Fiscal Year 81" and sent under the Secretary of Energy's signature to all DOE Secretaries on March 17, 1979. Both the speech and the directive define the administration's position on domestic and imported gas; as such, we believe they are expressions of a policy.

In our examination of files and interviews with officials, we have not been able to determine exactly how this policy was arrived at. We have seen no tangible evidence that either the Secretary's policy statement or the DOE directive were based on policy studies

conducted specifically for these purposes or that they were coordinated with officials of other Federal agencies. No documents made available by other agencies involved with energy decisions indicated that the speech or directive had been circulated for comment. Moreover, officials at the Department of State and the NSC said that the Secretary's speech had not been coordinated with them. Also, we have seen no evidence that the Secretary's policy statement was coordinated within DOE; two DOE staffers indicated they thought it was developed within the Secretary's own office by his personal staff.

On the other hand, we do know that major interagency task forces involving DOE had prepared or were completing policy assessments on (1) the role of imported liquefied natural gas in U.S. energy policy and (2) a review of U.S.-Mexican relations, including energy issues. These policy assessments were available when a comprehensive policy on future sources of gas for domestic use, including imports of natural and liquefied natural gas, was formulated. A brief summary of how policy was formulated on these issues is presented below. In commenting on our draft report, the NSC advised that the decision-making process on gas imports also included the development and legislative enactment of the Natural Gas Policy Act and the consequent development of the alternative fuel's test for reviewing proposed gas import prices.

Liquefied natural gas import policy

In February 1976, President Ford established an interagency task force, chaired by the Secretary of the Interior, to help the Energy Resources Council ^{1/} formulate a liquefied natural gas policy. The task force consisted of the FEA, as the lead agency; the Departments of Commerce, State, Treasury, Defense, and Interior; the Energy Research and Development Administration; the Export-Import Bank; and the Council on Environmental Quality. (This task force was preceded by at least two others and the FEA played the major role in at least one of them.) In the summer of 1976, the Council concluded that the U.S. policy on liquefied natural gas should attempt to limit imports to two trillion cubic feet per year and to no more than 0.8 to 1.0 trillion cubic feet per year from any single country.

^{1/} The Energy Resources Council was established under the Energy Reorganization Act of 1974 and Executive Order 11814 of October 11, 1974, to develop, coordinate, and assure implementation of Federal energy policy. The Secretary of the Interior was named Chairman, and in May 1975 the Chairman was changed to the Secretary of Commerce.

Shortly after assuming office, President Carter set aside the Ford Administration's policy and directed that the subject be reexamined. It appears that his decision was initiated by the energy task force he established to prepare a National Energy Plan. An interagency task force was convened with practically the same people who had served on the Ford task force in July 1977, with a staff member from DOE's Office of Policy and Evaluation as the key person in charge at DOE (he had also been the key staffer at FEA on the previous task force). The International Affairs Office at DOE was represented. A DOE official told us that this task force reached essentially the same conclusions as had been arrived at previously. The task force ceased meeting in early 1978.

Later in 1978, DOE's Office of Policy and Evaluation initiated an interagency review of the policy alternatives on liquefied natural gas imports. Once again DOE's Office of Policy and Evaluation was in charge and its Office of International Affairs, State's Office of Fuels and Energy, and the Departments of Commerce and Transportation participated. Specific tasks were assigned and comprehensive analyses prepared on whether or not liquefied natural gas imports should be controlled. International Affairs had lead responsibility for portions of the analysis. An overall report was given to the Secretary of Energy in July 1978.

The primary focus of the task force analysis was the problem of pricing liquefied natural gas. The task force did examine gas sources generally and, according to one task force member, a priority list of gas sources was developed which showed that a major disadvantage of imported liquefied natural gas, compared with other gas sources, is the much higher price that would be paid by the consumer.

Another conclusion of the staff was that a definitive statement on liquefied natural gas (such as a limit on total imports) might require an environmental impact statement. These conclusions may also account in part for the decision noted in the January speech that applications to import liquefied natural gas would be decided on a case-by-case basis and for the ranking of the sources of gas.

This task force report was never made final as a policy statement. DOE staffers gave several reasons for this. First, DOE felt that if a general policy (such as a limit on total imports) was publicly articulated, an environmental impact assessment might be required, whose preparation could delay proceedings on import applications before DOE at that time. Second, since the study essentially reached the same conclusion as that of the Ford Administration study, it might be politically embarrassing. And, third, DOE staff were preoccupied with trying to get the Congress to pass the National Energy Act of 1978, which was bogged down over the natural gas issue.

U.S. gas imports from Mexico

Gas imports from Mexico became a significant policy issue in 1977. U.S. gas companies, which were seeking to negotiate an agreement with Petroleos Mexicanos (the Mexican State oil company) for natural gas, signed a Memorandum of Intentions concerning a future contract on August 3, 1977. Before that, however, the Secretary of Energy and other U.S. Government officials had informed Mexican officials that the proposed price (\$2.60 per thousand cubic feet) being discussed between Petroleos Mexicanos and the companies would "prove embarrassing in the Canadian context," since it was higher than the United States was paying for Canadian imports and might prompt Canada to raise its prices. U.S. views were expressed as early as the latter part of June 1977, if not before. Nonetheless, the Memorandum of Intentions incorporated an agreement for \$2.60 per thousand cubic feet between the U.S. companies and Mexico.

Before the gas could be imported, U.S. Government regulatory authorities had to approve the \$2.60 price. U.S. officials indicated to Mexico that the price was unacceptable and probably would not be approved by the regulatory agencies. Mexican officials were unwilling to budge on the issue, and an impasse developed; as a result, the Memorandum of Intentions expired on December 31, 1977, with no contract being concluded.

Efforts to resolve price during the first half of 1978 were unsuccessful. The issue increased in importance, because Mexico was threatening to have its industries shift from petroleum to natural gas. Over the long run this, in turn, might affect the overall rate of Mexican crude oil production and exports because most Mexican crude oil comes to the surface mixed with large quantities of natural gas. If Mexico decided to use all this gas domestically, it might limit crude oil production because of limits on its ability to absorb the gas.

In August 1978, the NSC issued Presidential Review Memorandum 41, signed by the Assistant to the President for National Security Affairs, calling for a review of U.S. policies toward Mexico. The memorandum, which shows that the President directed the study to be made, instructed NSC's Policy Review Committee to make the study. The Secretary of State was designated as chairman of the Policy Review Committee and the study was to be prepared and coordinated by an interagency committee organized at the Assistant Secretary level. The central objective was to develop a coordinated, well-integrated approach to U.S. relations with Mexico. The study was to be used for a committee meeting on November 1, 1978, and was to concentrate on the long-term prospects for cooperation on the central issues in U.S.-Mexican relations, including immigration, energy (oil, gas, and nuclear), trade (agricultural and industrial), and

their impact on overall U.S.-Mexican relations. It was to identify potential tradeoffs between issues and suggest options among comprehensive strategies for approaching U.S.-Mexican relations.

In August 1978, the Department of State's Assistant Secretary for Inter-American Affairs, in a letter to the Assistant Secretary of Energy for International Affairs, requested DOE to participate in the review. The letter noted that this complex task would require the cooperation and active participation of many separate agencies and offices and stated that the Assistant Secretary of Inter-American Affairs would serve as executive secretary for the task force.

An organizing meeting was held with various agencies in August to discuss a general approach to the study and to reach agreement on procedures, initial drafting responsibilities, and proposed dates for completing various phases. State suggested that issue papers be prepared on (1) trade by the Special Trade Representative, (2) energy and nuclear energy by DOE, (3) migration by the Justice Department, (4) investment and finance by Treasury, (5) narcotics by Justice, (6) tourism by Commerce, (7) technology by the Office of Science and Technology Policy, and (8) border cooperation by State. DOE's Office of Policy and Evaluation was represented at this meeting by the Director of the Office of International and Security Policy and its Office of International Affairs was represented by the Assistant Secretary.

It was agreed that the overall approach proposed by State for the tasking for initial papers would be on a "lead agency" basis, with one agency responsible for each "issue" or "background" paper, drawing on other agencies for information as necessary. Other agencies were to have opportunity to comment on all papers, both in writing and at a subsequent meeting of the full committee; all agencies were to have opportunity to clear the final version, which was to record divergent agency views where they existed. Following the meeting, DOE and State agreed that they would share the lead for the nuclear energy issue.

DOE's Office of International Affairs had the lead role and prepared the draft outline for DOE's energy paper for the study. A staffer in International Affairs was designated coordinator within DOE.

The internal DOE deadline for the first draft was set for September 2, 1978. Participants in developing the energy paper were DOE's Offices of General Counsel and Policy and Evaluation, State's Office of Fuels and Energy, and the CIA.

On November 8, 1978, the National Security Adviser sent a memorandum to the Secretary of Energy directing that an appropriate energy strategy be developed in the context of the study

for negotiating with Mexico on supplies of oil and natural gas. The request was for clear U.S. objectives and tactics for use with U.S. companies and regulatory agencies and with Mexico. The memorandum also said to delay opening negotiations with the Mexicans until the President could review the study on U.S.-Mexican relations and decide an energy strategy in that context. We were unable to determine whether the paper requested of the Secretary of Energy was included in the overall draft prepared by State.

On December 6, 1978, the Policy Review Committee met to discuss the overall study. (We did not find evidence that a meeting was held on November 1, 1978, as planned.) Conclusions presented were approved by the President. It was agreed that a second meeting should be held before January 10, 1979, to complete discussions of issues. To prepare for the next meeting, several papers were to be readied and transmitted to the NSC by January 3, including one on energy. State was directed to coordinate with DOE and prepare a short paper with suggestions for a strategy for concluding an agreement with Mexico on natural gas imports. This paper was to include talking points and recommendations for concluding such an agreement for the President to use in the planned February 1979 meeting with Mexico's President Lopez Portillo.

On December 14, 1978, the Secretary of Energy sent a memorandum to the President entitled "Mexican Gas - A U.S. Strategy," which included information responsive to the tasks assigned to the State Department at the December 6 meeting and to the Secretary of Energy by the National Security Adviser by Memorandum dated November 8. The paper was in tune with the priorities in the speech the Secretary of Energy subsequently made in January 1979.

On February 6, 1979, there was a Policy Review Committee meeting on Mexico. (The files indicate that the Committee might have met in January.) The agenda included a DOE "Staff Discussion Paper Proposing a U.S. Strategy for Mexican Natural Gas Negotiations" dated January 29, 1979, which circulated prior to the meeting. This discussion paper was similar to the Secretary of Energy's December 14, 1978, memorandum to the President. The analysis and policy statements were also consistent with and supported the Secretary's January 1979 speech.

We reviewed this policy review effort to determine whether analysis on energy issues was part of the background information and analysis used by the Secretary of Energy in formulating his January 1979 policy statement. We believe that the evidence supports this and is consistent with that policy statement.

It is worth noting that, in September 1979, the United States and Mexico agreed on a framework within which commercial contracts for trade in natural gas could be authorized and supported as a

matter of policy. This agreement included terms concerning both volumes of gas to be traded and primary principals. The terms are also in tune with the Secretary of Energy's January 1979 policy statement.

PRINCIPAL DEPARTMENTS AND OFFICES THAT FORMULATE
INTERNATIONAL ENERGY POLICIES

This appendix describes the organizations and functions of the departments, agencies, and offices that influence the formulation and coordination of international energy policies.

DEPARTMENT OF ENERGY

The Secretary of Energy directs and supervises the administration of the Department, serves as its principal spokesman, decides major energy policy issues, and acts as the principal energy adviser to the President.

The Office of the Assistant Secretary for International Affairs and the Office of the Assistant Secretary for Policy and Evaluation are the key offices for formulating international energy policy across the broad spectrum of international energy issues. Of these offices, the first is in a sense most important, because it has primary responsibility for the area. However, the latter is also important because it is responsible for recommending DOE's overall policy direction and for coordinating DOE's analysis and evaluation of policies and programs. Several other offices also have important responsibilities for specific areas of international energy issues, and are discussed below. (See chart 1.)

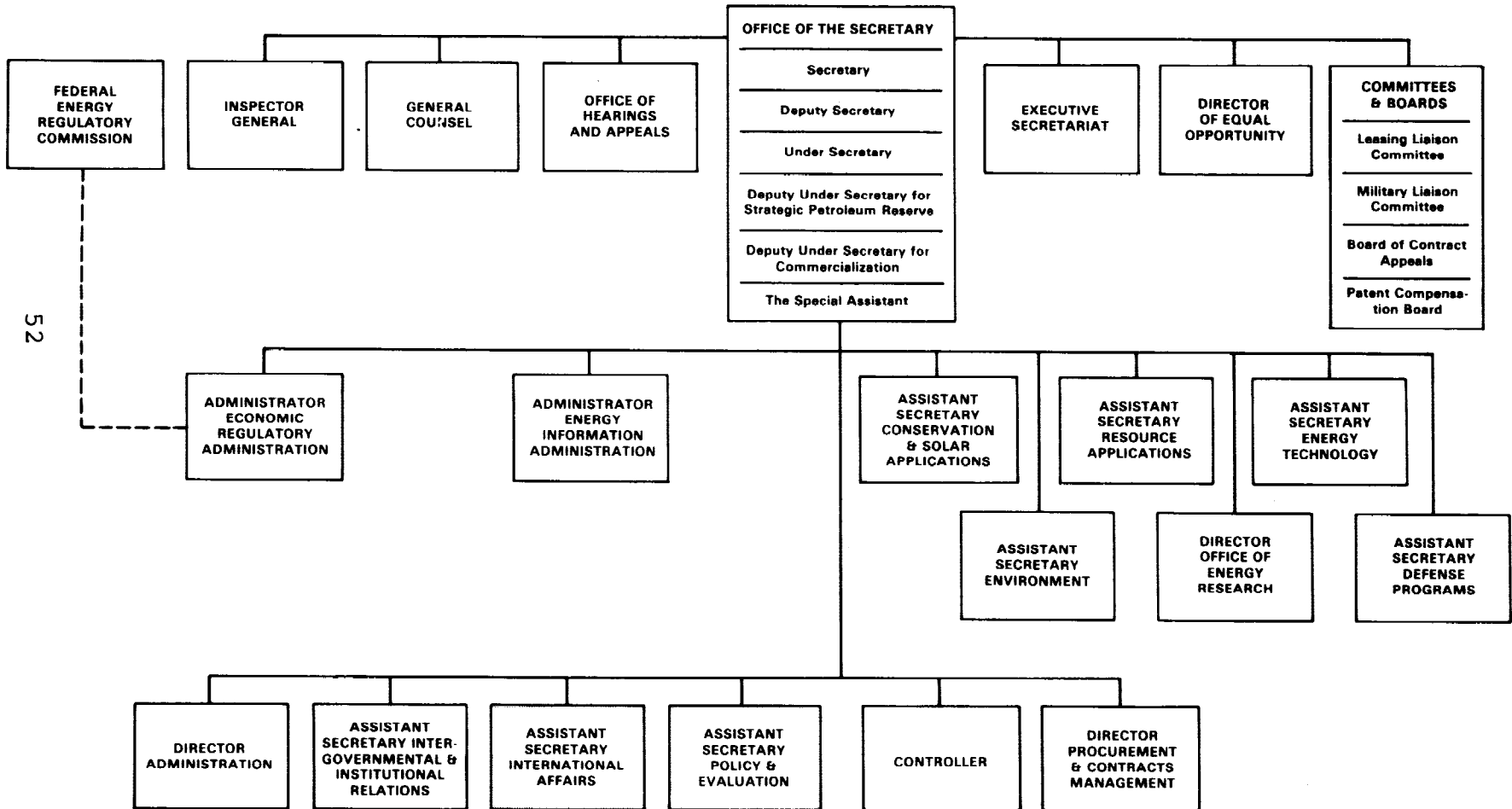
Office of the Assistant Secretary
for International Affairs

The Office of International Affairs represents DOE in the development, formulation, implementation, and assessment of international energy policies and programs within the Government in coordination with other DOE offices and in conjunction with the appropriate U.S. agencies, foreign governments, and international organizations.

The Office was established in October 1977 as a consequence of Section 102 (10) of the DOE Organization Act of 1977. Specific responsibilities are also mandated by the:

- Atomic Energy Act of 1954, as amended, which provides for international cooperation in the civil uses of atomic energy.
- Energy Reorganization Act of 1974, which sets forth the Energy Research and Development Administration's responsibility to encourage international energy research and development cooperation.

CHART 1
DEPARTMENT OF ENERGY



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- Nuclear Non-Proliferation Act of 1978, which sets forth comprehensive nonproliferation policy and procedural requirements for cooperation in the nuclear field and, under Title V, expands the scope of the U.S. Government's less developed countries' programs.
- Federal Energy Administration Act of 1974, which calls for monitoring of foreign direct investment in U.S. energy resources.
- Energy Policy and Conservation Act of 1975, which sets monitoring, transcription, and reporting requirements relating to U.S. industry participation in advisory groups of the International Energy Agency.
- Energy Conservation and Production Act of 1976, which amended and extended the Federal Energy Administration Act of 1974.

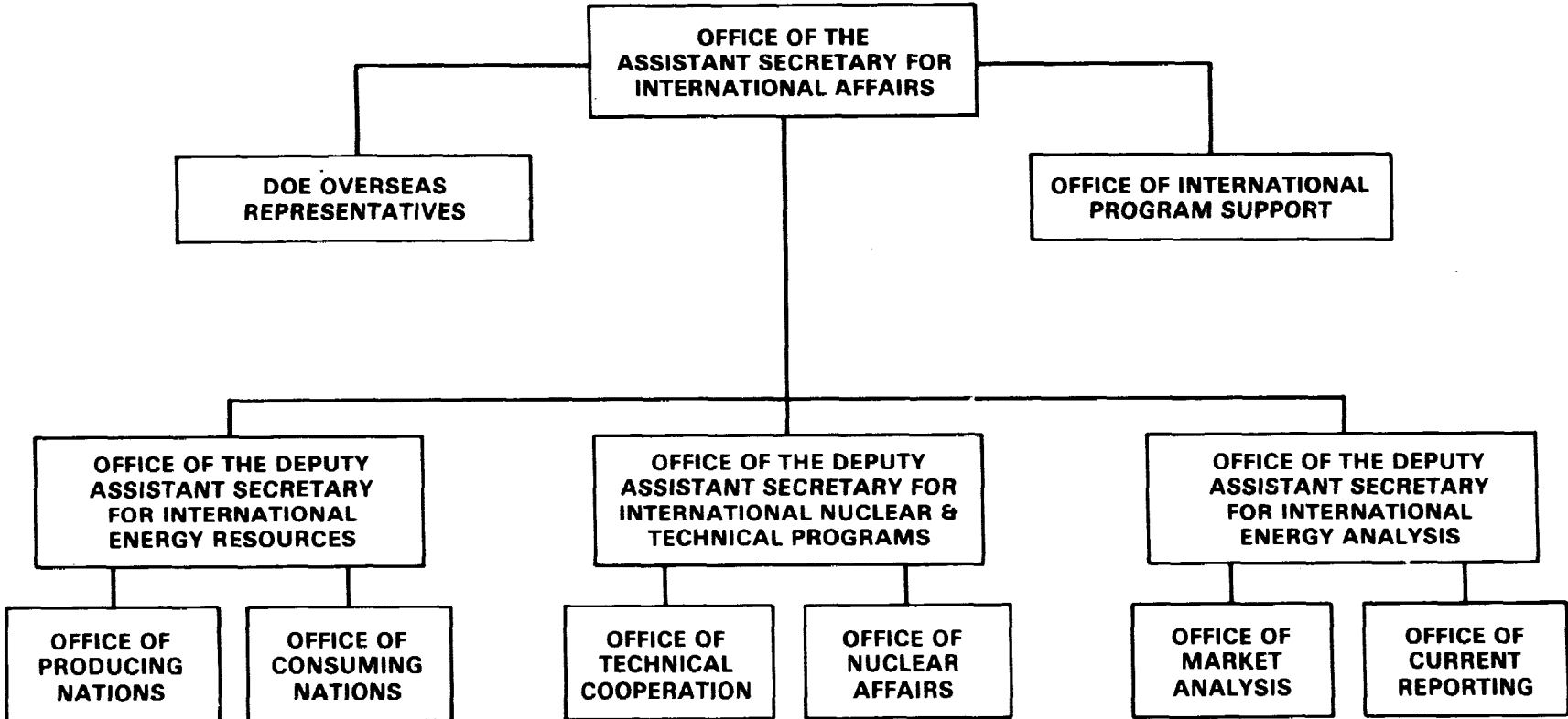
We were advised that much of the Office's international energy policy analysis is made in response to request from the Secretary and Deputy Secretary of DOE. We were also told that DOE does not unilaterally set U.S. international energy policies but rather that policies were arrived at through an interagency process. Also, on occasion the NSC will initiate a policy discussion, and generally both NSC and OMB act to coordinate, review, comment, and make decisions in their areas of responsibilities. Our review confirms that policy formulation is very much an interagency process, but that the central or focal point for major international energy policy formulation is the Executive Office of the President. (See ch. 2.)

Although the Office is less than 2 years old, it has already been reorganized four times. It is presently organized into three areas of substantive responsibility--International Energy Resources, International Nuclear and Technical Programs, and International Energy Analysis. (See chart 2.) This division of responsibilities became effective in April 1979. This Office has a staff of about 136 people.

International Energy Resources

The International Energy Resources Office formulates U.S. energy trade policies, emphasizing oil and natural gas imports and coal and energy equipment exports, and coordinates international contingency planning policies and programs. It represents the United States, jointly with the State Department, in selected activities of the International Energy Agency. It also monitors and assesses activities and operations in world markets that influence the security and price of energy supplies to the United States and its allies.

CHART 2
DOE, OFFICE OF THE ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS



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This office is organized into two sub offices: (1) Office of Producing Nations and (2) Office of Consuming Nations.

International Nuclear and Technical Programs

This Office is the focal point within DOE for identifying, monitoring, and assessing foreign energy technology which might affect U.S. programs and for negotiating and maintaining cooperative energy programs with foreign governments and entities, including a special program for less developed countries. It is also responsible for DOE's nonproliferation activities and nuclear export controls. It represents DOE at the International Atomic Energy Agency and the Nuclear Energy Agency. It also represents DOE at the International Energy Agency for activities related to research and development. The Office shares responsibilities in the nuclear area with the Office of the Assistant Secretary for Defense Programs; in the area of new energy technologies, it draws upon the support of the Assistant Secretary of Energy Technology.

The office is organized into subordinate offices which reflect a substantive division between nuclear and non-nuclear affairs: (1) the Office of Technical Cooperation and (2) the Office of Nuclear Affairs.

International Energy Analysis

This Office analyzes international energy markets, using economic modeling and forecasting techniques, and participates with the intelligence community on nonmilitary aspects of international energy matters. It is divided into (1) the Office of Market Analysis and (2) Office of Current Reporting.

This Office coordinates closely with the Energy Information Administration, which compiles data on international energy activities and conducts analyses using models of the international energy situation.

Coordination

The International Affairs Offices interact with their counterparts in other departments and agencies, especially State, Agency for International Development, Treasury, Defense, Commerce, and CIA. Contacts reach from the working level through the principals of the agencies. Office contacts in State, for example, include, among others, the Office of Fuels and Energy of the Economic and Business Affairs Bureau and the regional bureaus.

International Affairs officials told us that on occasion the NSC will initiate a policy discussion and that in general both the NSC and OMB "act to coordinate and review, comment, and, on occasion,

make decisions in their areas of responsibility." We were also advised that State has the final responsibility for conducting foreign policy, while DOE focuses on energy within the broad spectrum of U.S. foreign policy.

Representing the Department as a whole, but reporting to the Assistant for International Affairs, are five DOE overseas representatives--one each in the Embassies in Bonn, Paris, and Tokyo; one in Paris at the Organization for Economic Cooperation and Development; and one in Brussels at the European Economic Community.

There are no administrative orders, policies, or procedures describing the purposes and functions of the Office or how it should carry out its duties other than an organization chart and mission statements. Coordination of policy is generally accomplished informally but controlled through a formalized routing system. If disagreement arises within the Office, the Assistant Secretary or his principal Deputy makes a final determination.

We were informed that the Secretary of Energy's approval is required for major policy decisions and that policy recommendations must be made in writing. Moreover, there is an unwritten rule that important recommendations must be coordinated with all key offices in DOE. Generally, recommendations are not made to the Secretary on self-initiated policy proposals unless consensus can be achieved at the Assistant Secretary level. An Assistant Secretary can propose adoption of a policy despite opposition of one or more other Assistant Secretaries, but this normally would not be done. We were also advised that there is no centralized listing of U.S. international energy policies in effect and/or in process. However, officials of the Office of International Affairs stated that during 1978 they had:

- Participated actively in the International Energy Agency.
- Prepared positions for the Bonn Economic Summit.
- Analyzed the World Bank initiative for funding energy development.
- Coauthored U.S. position papers for the December 1978 OPEC meeting.
- Established a pilot program of energy assistance in developing countries.
- Monitored the Iranian oil strike situation.
- Helped to implement the Nuclear Non-Proliferation Act of 1978.

- Initiated, supported, and participated in the International Nuclear Fuel Cycle Evaluation.
- Acted as lead support agency for International Energy Agency programs.
- Negotiated and renegotiated agreements for cooperation in peaceful uses of atomic energy.
- Participated in (1) establishing cooperative energy research projects and monitoring them with other governments, including Saudi Arabia, Italy, Brazil, and Japan, (2) preparing for the Secretary's visit to the People's Republic of China and subsequent cooperative activities, and (3) considering studies and options for nuclear cooperation.

The Office of International Affairs is also responsible for ensuring that international policy supports domestic energy policy. However, the Assistant Secretary for Policy and Evaluation is responsible for actual integration of the international component into domestic policy.

Office of the Assistant Secretary
for Policy and Evaluation

The Office of Policy and Evaluation:

- Formulates and recommends DOE's overall policy direction and coordinates the analysis and evaluation of DOE policies and programs.
- Is responsible for indepth evaluation of DOE policies and programs and for continued assessment of the Nation's energy situation.
- Develops legislative proposals to support policy objectives and reviews program plans and budgets and management plans to ensure integration of new policy proposals.
- Prepares DOE's Annual Report and has initial responsibility for DOE's assistance to the Executive Office of the President in preparing the biennial National Energy Plan.

As chart 3 shows, Policy and Evaluation is organized into major offices, each headed by a deputy assistant secretary. The Deputy Assistant Secretary for Planning and Evaluation is responsible for ensuring that international energy policy is integrated with domestic energy policy. This, in turn, is assigned to the Office of Policy Coordination and, within that office, to the Division of International and Security Policy.

International and Security Policy

The Division of International and Security Policy responsibilities include oversight for DOE's international energy and security policies and ensuring appropriate coordination between itself and the Office of International Affairs in policy development and implementation. It works with the Office of the Assistant Secretary for International Affairs in representing DOE in intergovernmental and international contacts and projects relating to energy and national security. The Director and staff represent the Assistant Secretary for Policy and Evaluation, on a day-to-day basis, on a broad range of international issues with the Office of International Affairs. For example, the Division Director attends weekly staff meetings held by the Assistant Secretary of International Affairs. We have been advised that the Division is responsible for raising flags on policies developed by International Affairs if there are problems of inconsistency with domestic policies.

The statement of the Division's principal functions indicates that the Division perceives its role as one of ensuring not only consistency, soundness, and integration of international and domestic energy policies but also active involvement in analyzing and formulating international energy policies.

The Director is principal DOE liaison with OMB, the Council on Economic Advisers, Departments of State and Treasury, and other Federal agencies for coordinating and developing tax treaties and international tax policy legislation designed to encourage diversification of foreign energy sources and accelerated production of imported energy supplies. The Director develops and coordinates policies directed toward using the World Bank, Regional Development Banks, International Monetary Fund, and Overseas Private Investment Corporation as vehicles for influencing development of foreign energy resources and the tax and export policies of prospective foreign producers.

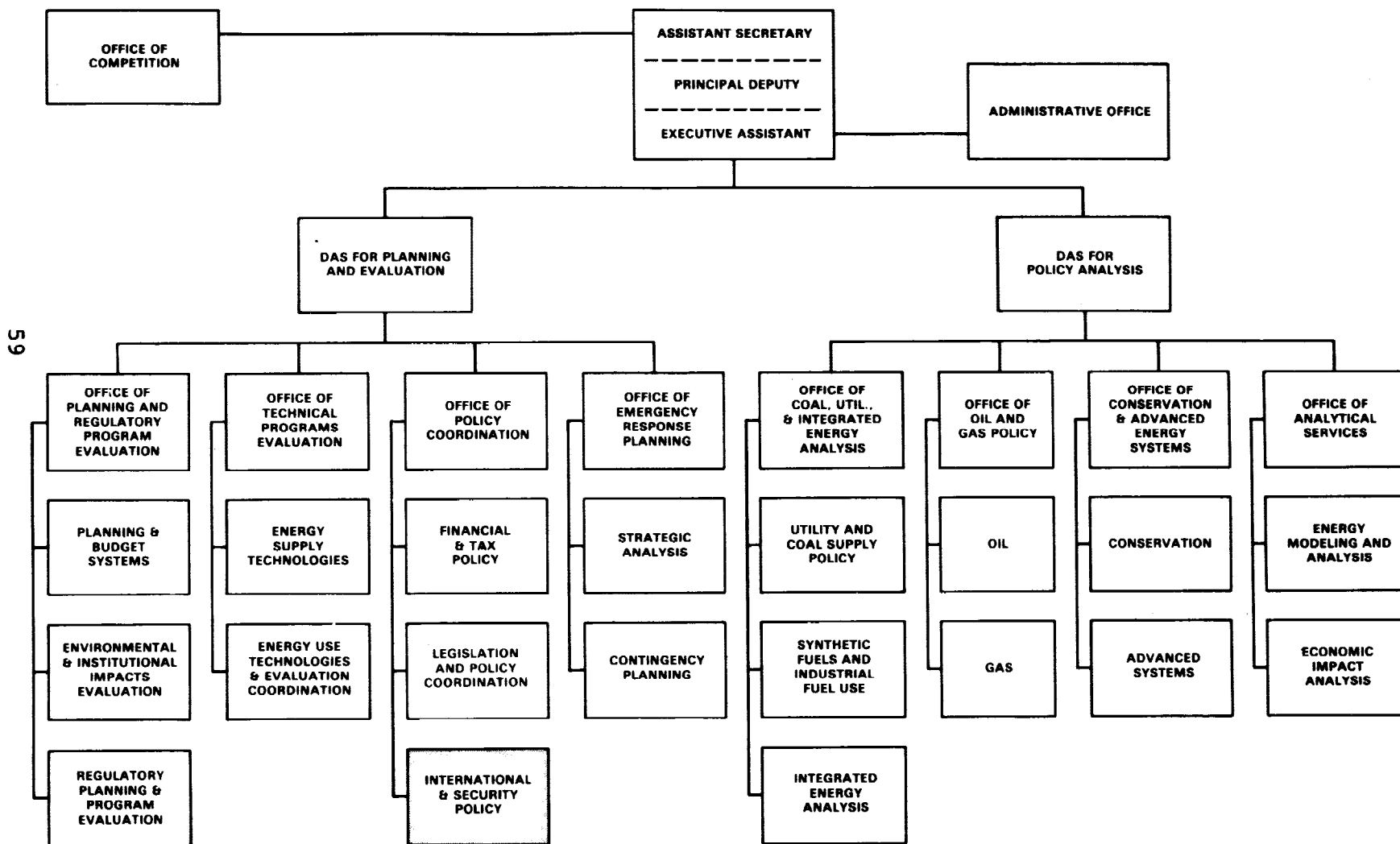
The Director and staff of the Division indicated that they have been analyzing and trying to formulate international energy policy initiatives. Of course, to become DOE policies, such initiatives would have to be coordinated with, and normally secure the approval of, International Affairs.

After our review was completed, we were advised that the Office of International and Security Policy was abolished and its functions transferred to other Policy and Evaluation Offices. (See chart 3.)

Office of the Assistant Secretary
for Defense Programs

The Assistant Secretary for Defense Programs directs the nuclear weapons research, development, testing, production, and surveillance

CHART 3
DOE, OFFICE OF THE ASSISTANT SECRETARY FOR POLICY AND EVALUATION



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DAS - Deputy Assistant Secretary

program. This Office analyzes and coordinates international activities relating to nuclear technology and materials. It also supports the Office of International Affairs' nonproliferation and nuclear export control activities.

Office of the Assistant Secretary for
Energy Technology

This Office has primary responsibility for promoting the development of new energy technologies to the point where they are available for public or private commercial application as soon as possible. It develops long-term energy technology development strategies and has been called upon to assist in formulating U.S. proposals for international cooperative policies and programs in the research and development of new energy technologies.

Office of the Director for
Energy Research

The Director for Energy Research manages the basic energy sciences program and, in conjunction with the Office of International Affairs, monitors the international exchange of scientific and technical personnel. This Office is responsible for research and development of nuclear policy.

Economic Regulatory Administration

The Economic Regulatory Administration manages regulatory programs for energy supplies, including oil and natural gas, imported from and exported to international markets.

Federal Energy Regulatory Commission

This independent agency within DOE establishes and enforces rates, among other duties, for the interstate transportation and sale of natural gas, including imported gas.

DEPARTMENT OF STATE

The Secretary of State advises the President on foreign policy, supervises the work of the State Department, and coordinates the activities of the U.S. Government overseas. The Secretary is the ranking member of the President's cabinet and a member of the NSC.

From State's perspective, energy is but one part of a broad spectrum of issues which must be considered in U.S. foreign policy formulation.

In formulating, coordinating, and executing international energy policy, the Secretary's principal aids for advice and assistance currently include the:

- Deputy Secretary of State;
- Under Secretary for Economic Affairs;
- Under Secretary for Security Assistance, Science and Technology; and
- Director of the Policy Planning Staff.

The geographic and functional bureaus, each headed by an Assistant Secretary of State or equivalent, are responsible for the bulk of State's day-by-day work. The five geographic bureaus, dealing respectively with Africa, East Asia and the Pacific, Europe, Latin America, and the Near East and South Asia, advise the Secretary on the formulation of U.S. policies and assist in guiding the operations of the U.S. diplomatic missions within their regional jurisdictions. These bureaus are involved in formulating international energy policies for issues that affect their respective geographic areas.

The functional bureaus, also headed by Assistant Secretaries, which have specific international energy responsibilities are the Bureaus of Economic and Business Affairs and Oceans and International Environmental and Scientific Affairs.

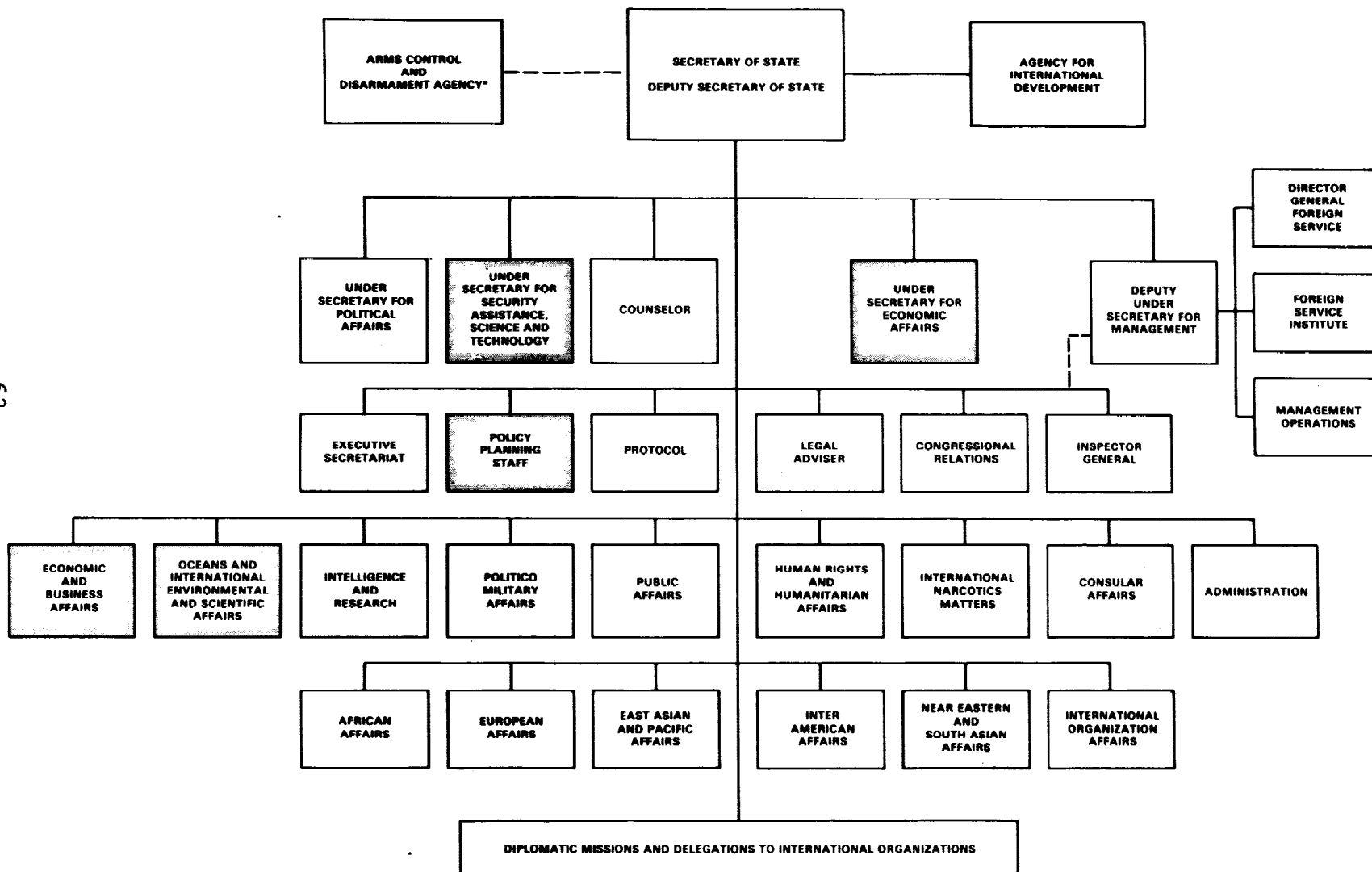
The Assistant Secretaries at State technically report directly to the Secretary; in practice, however, all major policies are cleared through the appropriate Under Secretary. (See chart 4.)

Under Secretary of Economic Affairs and
Assistant Secretary, Bureau of
Economic and Business Affairs

The Under Secretary of Economic Affairs and the Assistant Secretary for Economic and Business Affairs share important roles in formulating and developing State's international energy policies. The Under Secretary serves as the Secretary's principal foreign economic and scientific-technical policy adviser and directs and supervises the formulation and coordination of such policies. He also represents the Department on these matters with other agencies of the U.S. Government; for example, he represents State at formal NSC committee meetings. A State official said that, because of his overall responsibilities, the Under Secretary is heavily involved with energy policies. He provides input on substantive policy issues through reviews of staff analyses and proposals. However, he is usually removed from much of the day-to-day contacts within State and other executive agencies that occur in the process of developing policies.

The Assistant Secretary for Economic and Business Affairs is responsible for formulating and implementing foreign economic and non-nuclear energy policy. He provides coordination with the

CHART 4
DEPARTMENT OF STATE



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*A separate agency with the director reporting directly to the Secretary and serving as principal adviser to the Secretary and the President on Arms Control and Disarmament.

Assistant Secretaries of the regional bureaus for an adequate and regular flow of information concerning the U.S. Government's multi-lateral economic and commercial policies.

The Deputy Assistant Secretary for International Resources and Food Policy has principal responsibility under this Assistant Secretary for developing and implementing energy policy initiatives and is often State's representative or agency contact for interagency task force meetings on international matters. Most of the energy analysis is done by the Office of Fuels and Energy, which is under this Deputy.

The Office of Fuels and Energy, headed by a Director, has primary responsibility for preparing and analyzing non-nuclear energy issues and developing State's position on such policies. In doing so, it coordinates within State and with other Government agencies to insure compatibility of international energy policy initiatives with other foreign and domestic energy objectives and policies. This Office is subdivided into an Office of Producing Country Affairs (i.e., principal oil producer-exporter nations) and an Office of Consuming Country Affairs (i.e., principal oil importing consumer nations). One staff member spends most of his time on nuclear energy issues, but the principal responsibility for nuclear policy lies elsewhere in the Department.

The Office of Fuels and Energy's principal contacts with other executive agencies are DOE's Office of International Affairs; the Federal Energy Regulatory Commission; Treasury's Office of Commodities and Natural Resources; the NSC; and Defense's Office of International Security Affairs. It also has some contacts with Commerce and the Council of Economic Advisers.

In commenting on our draft report, NSC advised that the State Department reorganized the Bureau of Economic and Business Affairs and that the Office of Fuels and Energy is now the Office for International Energy Policy under a deputy assistant secretary.

Under Secretary for Security Assistance, Science and Technology

This Under Secretary is responsible for nuclear nonproliferation policy and for scientific and technological issues and their integration into foreign policy. The Deputy to the Under Secretary chairs the Interagency Group on Non-Proliferation and heads the U.S. delegation to the London Nuclear Suppliers Group.

Assistant Secretary for Oceans and International Environmental and Scientific Affairs

This Office has the principal responsibility for formulating and implementing policies and proposals for the scientific and tech-

nological aspects of U.S. relations with other countries and international organizations. This includes nuclear technology, new energy technologies, and cooperative efforts dealing with the application and transfer of technology.

Responsibility for these energy issues is largely delegated to the Deputy Assistant Secretary for Nuclear Energy and Energy Technology Affairs, whose staffing is provided by the Offices of (1) Non-Proliferation and Export Policy, (2) Export and Import Control, and (3) Energy Safeguards and Technology.

Policy Planning Staff

The Policy Planning Staff provides substantive support to the Secretary of State and other principals at State. It provides analysis, review, and advice for major ongoing and prospective policy issues, principally by assessing the interrelationships between issues and the strategic and long-term consequences of proposed actions. The Director of the Office has the rank of Assistant Secretary.

In its unique role, this office reviews ongoing policy assessments made by the geographic and functional bureaus, primarily on substantive issues under examination in the national security system. It involves itself in areas where policy formulation shows signs of inconsistency by identifying gaps in policy and new problem areas needing attention. This office coordinates the preparation of responses to Presidential Review Memorandums within State and with other agencies. It also provides staff support for State's representatives who attend NSC meetings.

In the energy area, the Policy Planning Staff has, for example, conducted overviews of the formulation of long-term international energy policy, both nuclear and non-nuclear. It plays a major role within State on Presidential Review Memorandum studies prepared for the NSC.

Regional bureaus

Regional bureaus may be designated to lead major policy reviews in which international energy issues are major components. A case in point is the policy study on U.S.-Mexican relations prepared by an interagency task force for the President, in which a key issue was availability of Mexican oil and gas supplies to the United States. At State, the policy review was led by the Assistant Secretary for Inter-American Affairs (a regional bureau). These bureaus are important sources of information on international energy policies.

NATIONAL SECURITY COUNCIL

The NSC consists of the President, Vice President, Secretaries of State and Defense, and two statutory advisors, the Chairman of the Joint Chiefs of Staff and the Director of the CIA. Other senior officials within the administration may be invited by the President to participate at NSC meetings. The current professional staff of about 30 persons was reorganized during the Carter administration on a geographic and functional basis. In addition, there is an NSC Staff Secretary who is in charge of the administrative, information, and legal offices. (See chart 5.)

NSC's statutory function is to advise the President on the integration of domestic, foreign, and military national security policies. The NSC is the principal forum for addressing international security issues which require Presidential decisions. Other functions are to help analyze, integrate, and facilitate policy decisions on foreign, defense intelligence, international economic, and other interdependent issues pertinent to the national security.

The Assistant to the President for National Security Affairs is the senior supervisory officer of the NSC staff, also referred to as the National Security Adviser.

The Regional Staff office has five areas--Western Europe, Middle East, Eastern Europe/Soviet Union, North-South, and Far East. The Functional Staff Office covers security analysis, global issues, intelligence coordination, science, international economics, and strategic planning.

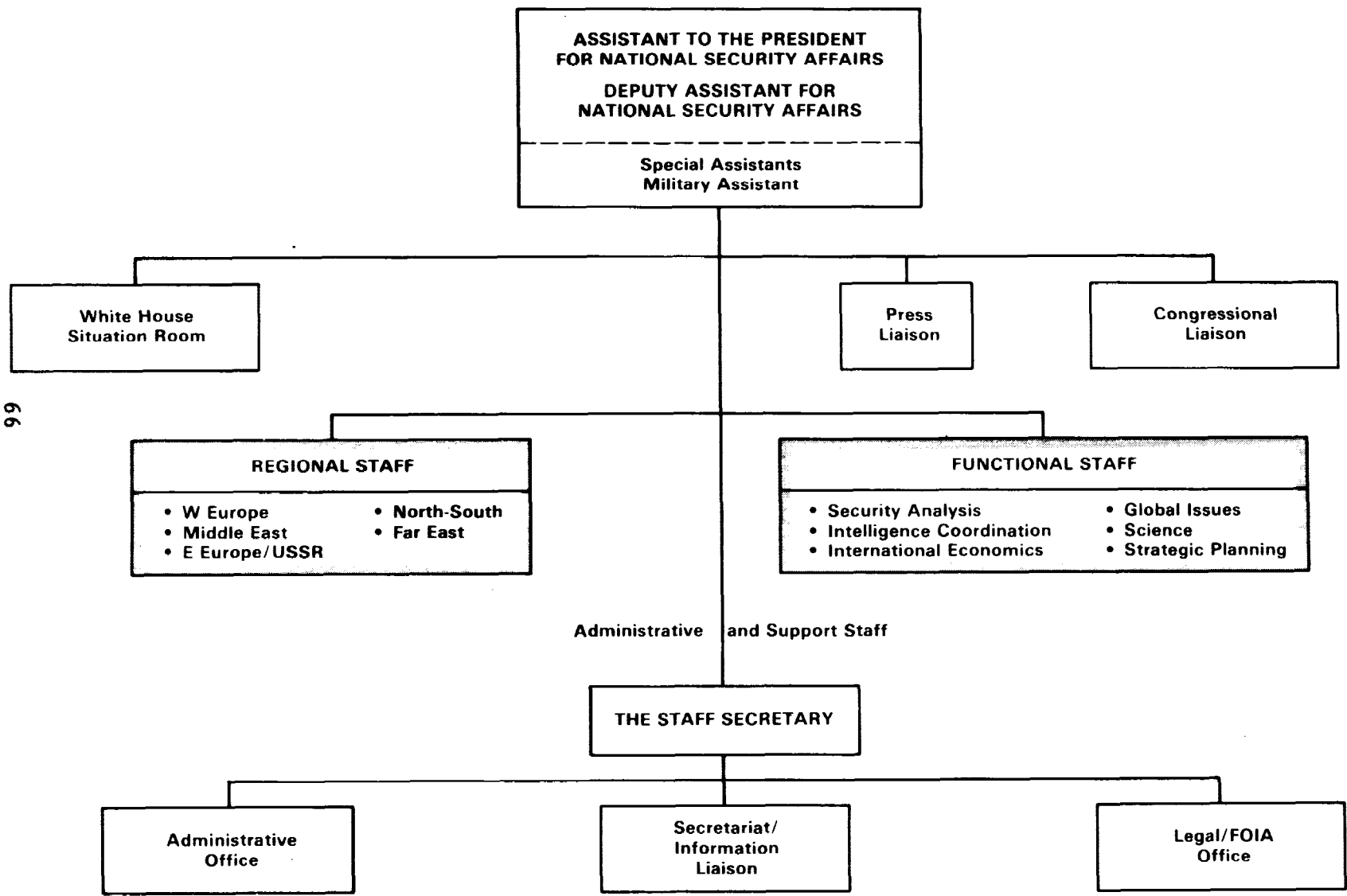
Permanent committees

Under the Carter Presidency, NSC's two permanent committees are the Policy Review Committee (PRC) and the Special Coordination Committee (SCC), often referred to incorrectly as the Security Coordinating Committee. They are convened not to make policy decisions, per se, but rather to review and select policy options and recommendations that should be proposed for Presidential decisions.

The PRC's responsibilities cover development of policy options for issues which fall primarily within one agency or department but which also have important implications for other departments, such as foreign policy issues that involve significant military or other broad cross-cutting subjects; defense policy issues that have international implications; and international economic issues, including energy pertinent to U.S. foreign policy and security.

The PRC is chaired by a cabinet-level officer or the Assistant to the President for National Security Affairs on occasion, with chairmanship for specific sessions determined according to whichever agency has prime responsibility for the issue being considered.

CHART 5
NATIONAL SECURITY COUNCIL



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In practice, the Secretary of State usually chairs PRC meetings because of State's key role in formulating and implementing foreign policy.

The SCC's job is to deal with specific cross-cutting issues-- primarily intelligence and crisis issues. It is also responsible for providing options and recommendations to the President for his decision in these areas. Examples of issues dealt with by this group are arms control evaluation and crisis management.

The SCC, chaired by the National Security Adviser, consists of the Secretaries of State and Defense and the Director of the CIA as the standard core group. It is often expanded to include the Secretary of the Treasury, Chairman of the Council of Economic Advisers, and Director of OMB.

As the above discussion indicates, there are two key differences between the PRC and the SCC. First, the PRC is almost always chaired by a cabinet officer whereas the SCC is chaired by the National Security Adviser. Second, the PRC deals mostly with reviews of broad policy-type questions whereas the SCC handles more action-oriented, perhaps somewhat more specific, policy issues.

At the beginning of the Carter administration, the PRC was more active than the SCC because major reviews of broad policy positions were undertaken. For example, all international regional policies were reviewed. Most of the studies were led by the State Department, but Defense and Treasury also led some. Once the administration had defined its broad, planned policy positions, the SCC became more active than the PRC.

Presidential Review Memorandums and Directives

President Carter has established an informal mechanism to keep abreast of issues that are or should be considered by the NSC. Once a week he has lunch with the Director of the CIA and the Chairman of the Joint Chiefs of Staff to cover intelligence and military issues. On Friday mornings, the President breakfasts with the Secretaries of State and Defense and the Vice President to discuss foreign affairs, for which the NSC staff prepares agendas. The attendees, however, can discuss any issue they judge sufficiently important, regardless of whether it appears on the agenda.

Every President defines differently the documents and procedures to be used by the NSC. President Carter established Presidential Review Memorandums and Presidential Directives as the working documents of his administration. Under President Ford, Presidential Review Memorandum-type documents were called National Security Memorandums. Presidential Review Memorandum is a tasking memo or a directive to study an issue in order to produce a report. The memo

which calls for such a study is really the Presidential Review Memorandum, but the report itself is frequently referred to as this memorandum. A Presidential Directive is an official written order or decision.

Tasking memos, prepared by NSC staff and signed by the President or his National Security Adviser, typically identify the need for making a study, objectives to be achieved, agencies which will participate, and lead agency responsibility. The memos vary in detail; if an issue to be addressed is known to be controversial, tasks may be outlined in considerable detail to ensure that each participant understands what is expected and that controversial questions are addressed. Some memos, however, merely direct an agency to study an issue.

The usual process is to have an interagency task force organized to do the work. Preliminary meetings of the principal working-level staffs are held to discuss responsibilities for specific assignments, scope and format of the study and report, and target completion dates for phases of the study. The NSC acts as the coordinator and overseer of such studies and is responsible for ensuring that all views are represented and for suggesting new direction as needed. The NSC Staff Secretary's Office tracks the progress of all studies.

The final draft report is presented for the signatures of the Secretaries of all involved agencies. At this time, the report goes to the NSC staff for final review. If the staff feels that the document is complete, giving options as well as analysis, it is sent forward to the President.

When conflicting views cannot be resolved at the working level, the standing committees meet to resolve differences. If all views cannot be reconciled at the principals' level, remaining opposing views will be incorporated in the report to the President.

Sometimes the President feels there has to be a resolution of differences by the principals, and he will call a meeting to seek a solution or to secure additional information. Or, the President may feel that the issue needs further study and sends it back for further work.

Presidential Review Memorandums reviews are not meant to make decisions on policy issues but rather to present all sides to an issue, propose possible solutions for the President to choose from, and make recommendations as to which course should be taken. As of mid-1979, about 50 to 55 such memorandums had been prepared by the current administration.

The end product of this process can take one of several forms. One of these is the Presidential Directive. This is a formal doc-

ument signed by the President, which directs action to be taken on an issue by the executive agencies. As of July 1979, the Carter administration had issued only about 40 Directives. President Carter, we were informed, normally prefers less formal ways of communicating his decisions, resulting in a second kind of document, called Presidential Memorandums. Presidential Review Memorandums, Presidential Directives, and Presidential Memorandums can be signed by either the President or his National Security Adviser.

Energy policy formulation

About three NSC staffers spend a considerable portion of their time on international energy policy. Since 1977, the NSC has directed Presidential Review Memorandum studies on international energy policy issues. About 10 to 15 of the total 50 to 55 Memorandum studies deal in part or in whole with international energy policy. The NSC was involved with the five policy issues we examined in detail; in fact, four of them included formal NSC policy studies. On the fifth issue, the NSC played an important role during at least part of the policy formulation process.

Other examples of NSC's significant involvement with international energy policy formulation, in addition to those five policy issues discussed above, are as follows. In the area of energy assistance to developing countries the NSC, through a steering group, has maintained oversight of a pilot program for initiating assistance undertaken by DOE, State, and AID. For nuclear nonproliferation, the NSC has maintained a formal standing committee on nonproliferation and, under that, a subgroup which deals with matters of nuclear export controls.

Nearly all major international energy policy issues must go through the NSC for review. An agency might seek to circumvent this process by sending a memo of proposed action to the President. However, the President's staff would invariably route the memo to other concerned officials for comment before presenting it to the President. During our interviews, we were informed of one instance in which a U.S. gas policy was made public in a speech by the Secretary of Energy without prior NSC review.

The NSC is also intimately involved in high-level coordination of domestic and international energy policy formulation. An NSC staffer typically attends meetings on energy held by the Domestic Policy Staff, which is part of the Executive Office of the President. Similarly, the Domestic Policy Staff Office usually sends a staff person to NSC meetings on international energy questions. The NSC also regularly participates in meetings of the Economic Policy Group.

DEPARTMENT OF THE TREASURY

As a major adviser to the President, the Secretary of the Treasury has primary responsibility for formulating and recommending domestic and international financial and tax policies, participating in formulating broad fiscal policies that have general significance for the economy, and managing the public debt. The Secretary is Chairman of the Economic Policy Group and, as such, has been designated by President Carter as the administration's chief economic spokesman.

Treasury's role in international energy policy formulation is derived from economic considerations including:

- The impact of the energy situation on the U.S. balance of payments and the dollar.
- The effects of OPEC price decisions on the U.S. and world economy.
- Investment in energy resources abroad, both as a means of promoting a better world supply-demand balance and as an instrument for assisting developing countries.
- The effects of energy finance issues on bilateral relations with other countries and on multilateral relations in such institutions as the United Nations, International Energy Agency, and World Bank.

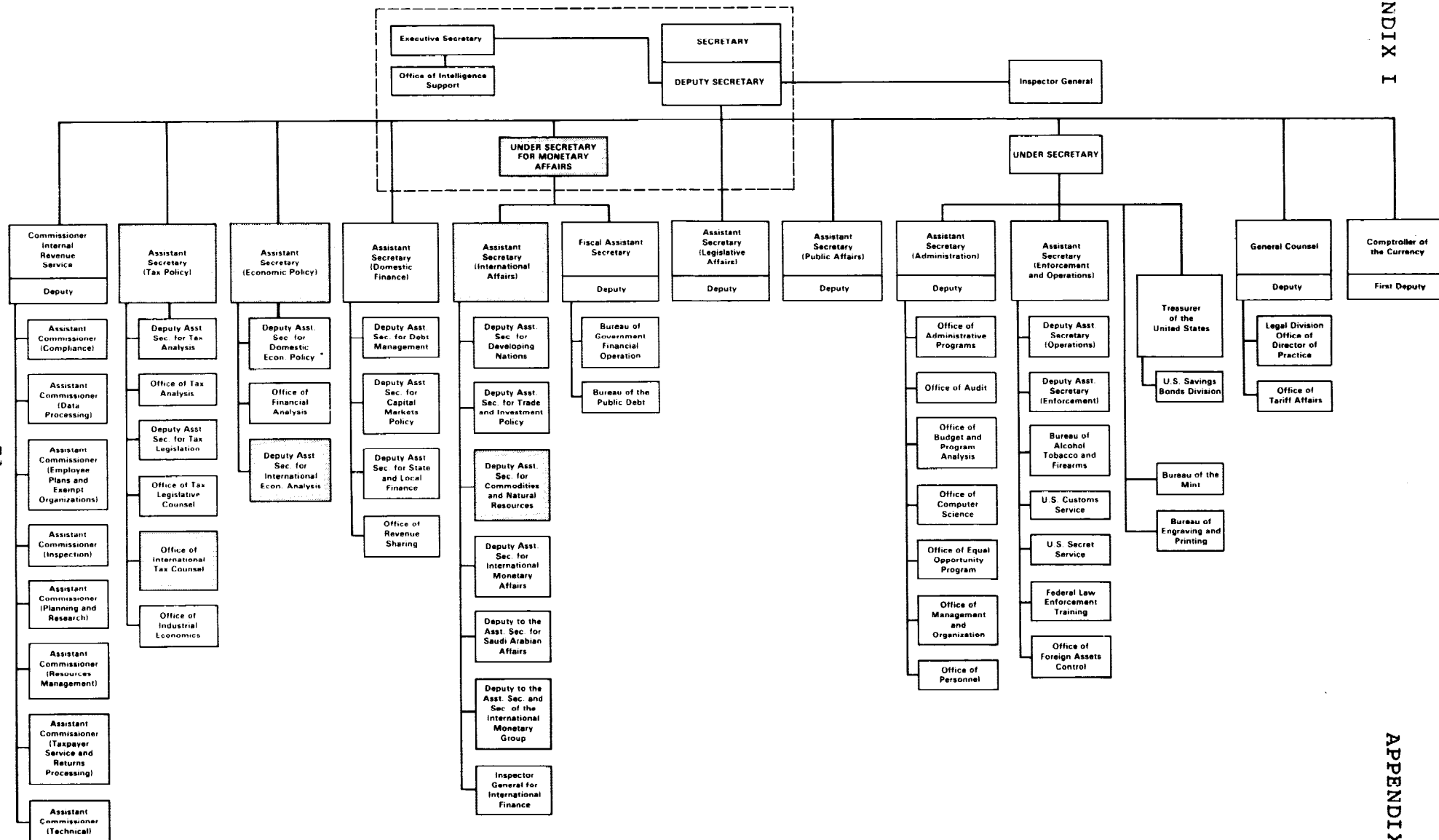
According to one Treasury official, Treasury's role is often subsidiary to that of other agencies, such as DOE, and is designed to ensure full consideration of general financial and economic factors during policy formulation. However, Treasury has primary responsibility for the energy policies of multilateral development banks. The National Advisory Council and the Development Coordinating Committee's Subcommittee on Multilateral Aid, both chaired by Treasury, are used for interagency decisionmaking in this area.

Most of the Treasury's international staff is concerned with energy issues at various times, but only a small professional staff work on energy issues. (See chart 6.)

Under Secretary for
Monetary Affairs

The Under Secretary for Monetary Affairs advises and assists the Secretary and Deputy Secretary on domestic and international finance and economic matters. These responsibilities include developing policies and guidance for Treasury activities in the area of international energy policies, among others.

CHART 6
DEPARTMENT OF THE TREASURY



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Assistant Secretary for
International Affairs

The Office of the Assistant Secretary for International Affairs is the principal adviser to the Secretary of the Treasury and the Under Secretary for Monetary Affairs in areas of international energy policies and programs and international financial, economic, monetary, trade, and commercial matters. Staff offices provide support functions which include:

- conducting financial diplomacy with industrial and developing nations and regions;
- working toward improving the structure and stabilizing the operations of the international monetary and investment system;
- monitoring developments in foreign exchange operations;
- coordinating policies and programs of bilateral and multilateral development lending programs and institutions;
- formulating policy concerning financing of trade;
- coordinating policies concerning foreign investments in the United States and U.S. investments abroad; and
- gathering and analyzing balance-of-payments data.

The Office is also responsible for economic relations with Middle East countries, the Soviet Union, People's Republic of China, and Eastern European countries. It supports the Secretary in his role as Chairman of the East-West Foreign Trade Board; as Co-Chairman of the U.S.-Saudi Arabian Joint Commission on Economic Cooperation, the U.S.-Israel Joint Commission for Investment and Trade; and U.S.-U.S.S.R. Commercial Commission; and as a member of the Joint Trade and Economic Commissions with Poland and Romania and other Middle Eastern Joint Commissions.

The Office has four Deputy Assistant Secretaries: Commodities and Natural Resources, Developing Nations, International Monetary Affairs and Trade and Investment Policy. They all have some responsibility for international energy issues, but Commodities and Natural Resources has the primary responsibility.

Deputy Assistant Secretary for
Commodities and Natural Resources

This Deputy Assistant Secretary is the principal adviser to the Assistant Secretary for International Affairs in formulating

and implementing Treasury's international energy policies and positions, with special emphasis on the economic, financial, and investment aspects of such policies. The Office assembles information and provides analyses relevant to the formulation of commodity and international energy policies. The Office advises the Assistant Secretary and senior Treasury officials on economic and financial implications of natural resource and international energy issues which may be considered at interagency or international levels. It also develops and implements Treasury policy on natural resource issues arising in such international forums as the International Energy Agency, U.N. Conference on Trade and Development, Development Committee of the International Monetary Fund, International Bank for Reconstruction and Development, various committees of the Organization for Economic Cooperation and Development, and in bilateral foreign relationships.

The Office of International Energy Policy under the Deputy Assistant Secretary for Commodities and Natural Resources provides the principal staffing for formulating Treasury policy and positions on questions relating to international energy policy and for Treasury participation on international energy matters in international forums. This Office is headed by a Director and has a staff of three. The staff meets with officials from other agencies almost daily, but usually on an ad hoc basis. The most frequent contacts are with members of DOE's International Affairs office and State's Office of Fuels and Energy. It also deals frequently at DOE with the Office of Policy and Evaluation and maintains close contact with State's Bureau of Intelligence and Research and the Deputy Assistant Secretary for International Finance and Development, Bureau of Economic and Business Affairs. At Defense, the staff deals with the Office of the Assistant Secretary for International Security Affairs, particularly the Office of the Deputy Assistant Secretary for International Economic Affairs. It also deals with the Council of Economic Advisers, NSC, CIA, Agency for International Development, and Commerce.

When an international energy policy issue cuts across other international and functional issues (such as money, trade, and investment), lead office responsibility is usually based on whether the issue is primarily an international energy issue. Other offices within International Affairs are assigned lead responsibility if an issue is primarily in another area, such as trade. The Assistant Secretary decides which office is to have the lead responsibility based on the availability of staff and its familiarity with the subject and the primary nature of the issue.

The lead office is responsible for coordinating the position it develops with other appropriate offices. When disagreements arise, an effort is made to reach a consensus; if a consensus cannot be achieved, the matter is escalated to a higher level for a decision.

Assistant Secretary for Economic Policy

This Assistant Secretary informs the Secretary and other senior policy officials of current and prospective economic developments and helps to determine appropriate economic policies. He participates with the Council of Economic Advisers and OMB in developing official economic projections and advises the President on choices among alternative economic policy courses.

The Assistant Secretary is responsible for (1) economic analysis of the consequences of international and domestic energy proposals and policies and (2) monitoring energy-related regulations and legislation and developing recommended Treasury positions on these matters. The Deputy Assistant Secretary for International Economic Analysis helps in carrying out these responsibilities, with a staff provided by the Office of International Energy Research.

Assistant Secretary for Tax Policy

This Assistant Secretary advises and assists the Secretary and the Deputy Secretary on the formulation and execution of domestic and international tax policies and programs.

Related functions, carried out by supporting staff offices, include analyzing proposed tax legislation and programs; projecting economic trends affecting tax bases; studying effects of alternative tax measures; preparing official estimates of Government receipts for Presidential annual budget messages; providing legal advice and analyzing domestic and international tax matters; helping to develop and review tax legislation and domestic and international tax regulations and rulings; and maintaining relations with international organizations on tax matters.

The Assistant Secretary for Tax Policy is Treasury's coordinator for international energy tax policy. The Office of the International Tax Counsel provides support.

DEPARTMENT OF DEFENSE

Defense is involved in formulating international energy policy when issues affect the national security. Its main concern is with the security of energy supply, especially petroleum. Issues that Defense is involved with include:

- Protection of the supply of oil to the United States and its allies (North Atlantic Treaty Organization countries and Japan), including oil production facilities and ports in the Middle East and the sea lanes over which internationally traded oil flows.

--The impact on the military of the revolutionary events in Iran.

--Allocation of petroleum in wartime.

--Export of energy technology to Communist nations.

Many of the major Defense offices get involved to some extent in the formulation of such policy. (See chart 7.)

Under Secretary for Policy
and Assistant Secretary for
International Security Affairs

The Under Secretary of Defense for Policy is the principal staff assistant to the Secretary of Defense for politico-military affairs and the integration of Defense plans and policies with overall national security objectives. Participation in national security affairs includes the development and the coordination of positions, policies, plans, and procedures concerning international politico-military and foreign economic affairs of interest to the Department of Defense.

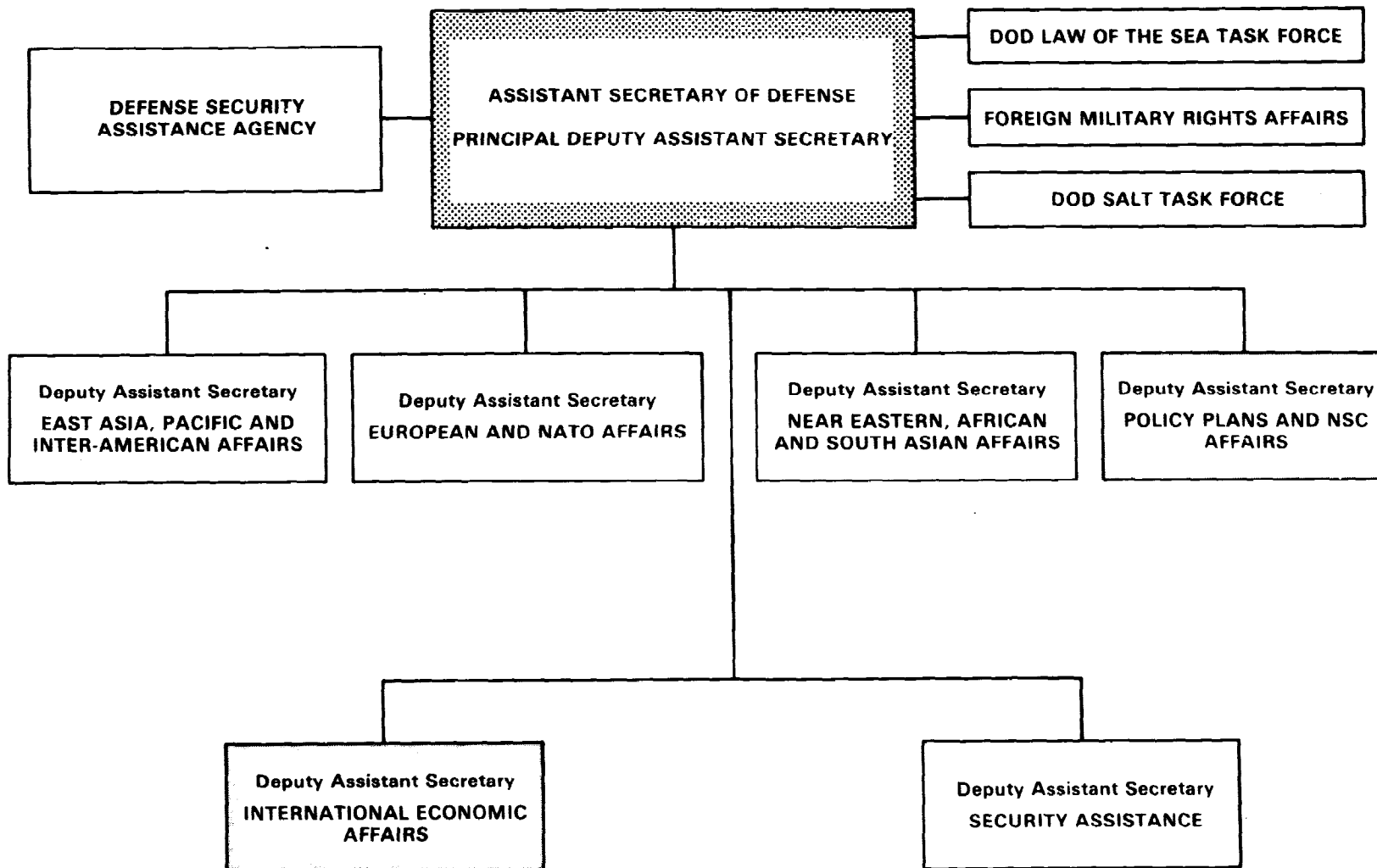
The Assistant Secretary, Office of International Security Affairs, is the principal deputy to the Under Secretary for Policy. He is the principal staff assistant to the Secretary of Defense for international security affairs. This Office has primary responsibility for Defense's participation in the formulation of international energy policy. It has the lead role for formulating policy within Defense and for coordinating the Department's position with other executive agencies, including the NSC. Chart 8 shows the organization of this office. Within the office of the Assistant Secretary, there are six Deputy Assistant Secretaries. Key responsibilities for international energy policy are shared by the Deputy Assistant Secretaries for Policy Plans and NSC Affairs, and for International Economic Affairs.

In commenting on our draft report, NSC advised that the Office of Near Eastern, African and South Asian Affairs now shares responsibility for international energy policy and that the Office of Policy Plans and NSC Affairs is now assigned directly to the Office of the Under Secretary for Policy.

Policy Plans and NSC Affairs

This office is responsible for policy planning on international nuclear energy issues and for NSC affairs. It had the lead role for Defense's participation in the NSC petroleum supply vulnerability assessment.

CHART 8
INTERNATIONAL SECURITY AFFAIRS



International Economic Affairs

In formulating Department policy positions on non-nuclear international energy issues this Office generally assumes the lead role in coordinating with all other Defense offices and with counterpart executive agencies, including the Joint Chiefs of Staff; Under Secretary of Defense for Research and Engineering; Assistant Secretaries for Manpower, Reserve Affairs and Logistics and for Program Analysis and Evaluation; Secretaries of the Army, Navy, and Air Force; DOE's Office of the Assistant Secretary, International Affairs, and several of its Deputy Assistant Secretaries or office directors; State's Deputy Assistant Secretary, International Resources and Food Policy, and Director of the Office of Fuels and Energy; Treasury's Deputy Assistant Secretary, Commodities and Natural Resources, and Director, Office of International Energy Policy; CIA's Office of Economic Research; OMB; and the Domestic Policy Staff Office.

The process typically works within Defense as follows. The Office of International Economic Affairs schedules a meeting with representatives of other Defense offices that it judges have an interest in a given issue. Individuals with expertise on the issue are invited. The meeting may involve the Assistant Secretary of Defense for International Security Affairs, Deputy Assistant Secretary for International Economic Affairs, and their counterparts and subordinates. Or, it may be led by the Deputy Assistant Secretary's action officer and his/her counterparts in other Department offices. Many issues are dealt with by the action officer. At the meeting, the group seeks to reach a consensus on a position for Defense. The action officer then assumes responsibility for drafting a position paper. Other offices are assigned, as appropriate, to supply information and, if necessary, analyses for various segments of the issue. Once an overview draft position paper is prepared, it is circulated to other offices for review and comment. Depending upon the reaction to the draft, additional meetings and redrafting may occur. We were told by a Department official that consensus is almost always achieved; however, if it is not, the issue is referred to a higher level.

Joint Chiefs of Staff

The Chairman of the Joint Chiefs of Staff serves as the principal military adviser to the President, the NSC, and the Secretary of Defense.

Serving the Joint Chiefs of Staff is the Joint Staff, composed of several special offices. The offices that frequently deal with international energy policy issues include Operations, Logistics, and Plans and Policy.

When the NSC requests an interagency task force to assess an international energy issue and Defense is a participant, the Chairman of the Joint Chiefs of Staff, because of his advisory role to the NSC, receives the request concurrently with the Secretary of Defense. The Joint Staff determines which directorate should be involved and schedules a meeting with appropriate offices. Each directorate may develop its own position paper to present and discuss at a meeting involving other Defense offices. The Office of the Deputy Assistant Secretary, International Economic Affairs, drafts the position papers for the Department.

On interagency task forces operated under the auspices of the NSC, the role of the Joint Chiefs of Staff is equal with the Assistant Secretary of Defense for International Security Affairs because the role of the Chairman, Joint Chiefs of Staff, is military adviser to the NSC. Thus, when an NSC meeting is held to discuss and act upon a task force position paper and recommendations, both the Joint Chiefs and the Assistant Secretary of Defense for International Security Affairs send representatives. Each representative takes with him the position paper as developed by the various Defense offices under the lead role of International Security Affairs.

Under Secretary for Research and Engineering

This Under Secretary is the principal adviser and assistant to the Secretary of Defense for scientific and technical matters, basic and applied research, environmental services, and development and acquisition of weapons systems. He conducts analyses, develops policies, provides advice, makes recommendations, and provides guidance on Defense plans and programs. This is the key technical office within Defense for the development of new energy technologies and for dealing with the international security policy implications of energy technologies.

Assistant Secretary for Manpower, Reserve Affairs, and Logistics

This Assistant Secretary is the principal staff adviser and assistant to the Secretary of Defense for civilian and military personnel requirements, policy and planning, reserve affairs, logistics, and installations management.

Among the responsibilities of this Office are conducting analyses, developing policies, and making recommendations concerning Defense's management and conservation of energy. These responsibilities are assigned by the Assistant Secretary of Defense to the Deputy Assistant Secretary, Energy, Environment, and Safety. The current staffing under the Deputy Assistant Secretary is provided by the Energy Policy Office.

DEPARTMENT OF COMMERCE

In promoting the Nation's economic development and technological advancement, the Commerce Department provides a wide variety of programs which can be affected by international energy developments and policies. These include programs to (1) promote world trade, (2) strengthen the U.S. international trade and investment position, (3) actively support a vital private economic sector, (4) assist in the development and maintenance of the U.S. merchant marine, and (5) improve understanding of the earth's physical environment and oceanic life.

Generally, Commerce plays a small role in the formulation of U.S. international energy policy--deferring to activities, programs, and expertise of other agencies, particularly DOE, State, and Treasury. Commerce devotes only four to five professionals to the energy area.

Commerce does coordinate with appropriate Government agencies on international energy issues that affect international trade and U.S. domestic business. It participates in interagency task forces and committees convened to deal with such problems, but its principal function is to review proposed policy actions by other executive agencies or the Congress. Its influence is based on its ability to persuade, which depends significantly on its staffing and on the Secretary's personal interest in actively influencing energy policy.

Examples of international energy policies that Commerce has contributed to are (1) liquefied natural gas import policy, (2) assessment of balance-of-payments impacts arising from energy imports, and (3) energy assistance programs for less developed countries.

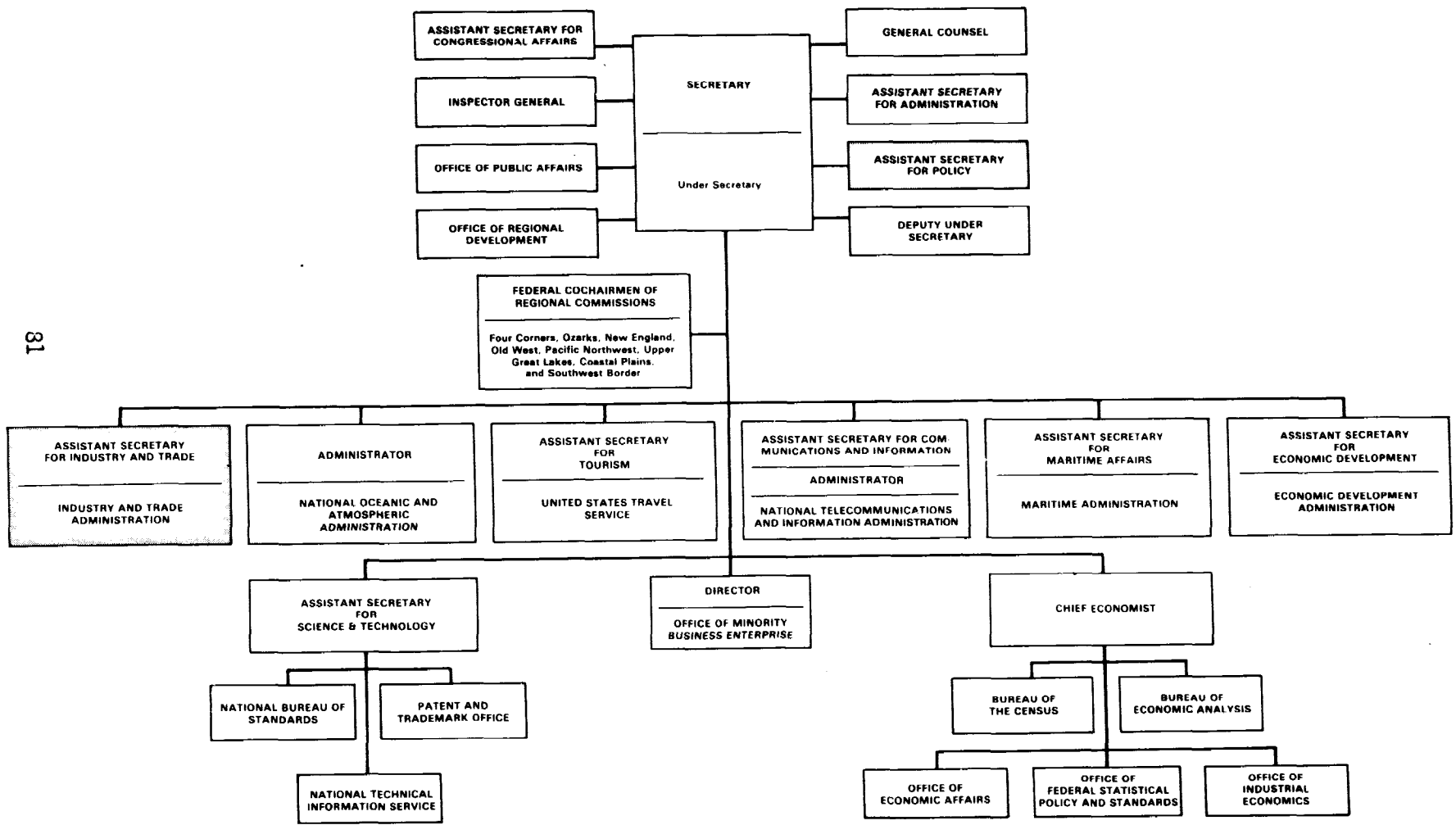
The focal point for policy formulation and coordination is the Office of the Assistant Secretary for Policy. The Assistant Secretary for Industry and Trade also has responsibilities relating to specific international energy issues. (See chart 9.)

Assistant Secretary for Policy

The Assistant Secretary for Policy advises the Secretary and the Under Secretary on the development of broad Department goals and policies, with special emphasis on domestic and international economic policies, strategic resources, energy, and regulatory impact assessment; he:

- Disseminates to Department offices and operating units information on new policy assignments, establishes lead office responsibility for each issue, and assures complete and timely resolution of policy issues in keeping with the Secretary's needs and interests.

CHART 9
DEPARTMENT OF COMMERCE



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- Coordinates Department views on policy matters affecting more than one Commerce office or operating unit, including those in the Office of the Secretary.
- Provides independent assessments, as required, of the views and recommendations of Department offices and operating units on policy matters of major importance to the Secretary and Under Secretary.
- In consultation with Secretarial officers, initiates and/or conducts long-term policy development and special studies in response to Secretarial concerns and priorities.
- Maintains a current inventory on the status of major policy issues within the Department to support the Secretary's and Under Secretary's needs.

Deputy Assistant Secretary for
Ocean, Resource and Scientific
Policy Coordination

This Deputy Assistant Secretary is the focal point for energy issues within the Office of the Assistant Secretary for Policy and Commerce's representative on the interagency Energy Coordinating Committee. The Department organization specifically provides for this Office of Deputy Assistant Secretary, but orders had not yet been issued delegating specific authorities or describing its purpose and functions at the time of our review.

Staffing for energy policy issues, both domestic and international, is provided by an "Energy Group" consisting of four professionals, holdovers from a Commerce energy staff of about 60 persons that existed before DOE was created. The Energy Group is not officially designated by organization orders, and there are no orders prescribing its purposes and functions. However, it advises the Secretary on how energy policy affects or may affect Commerce activities and responsibilities and serves as the focal point for coordinating with other Commerce offices and with other executive agencies. It also

- participates in interagency task forces;
- responds to inquiries to the Secretary's office and reviews and comments on proposed energy legislation that may affect Commerce; and
- conducts energy forecasts of the Nation's future supply and demand needs.

The principal agencies that the Energy Group coordinates with are State, DOE, Defense, and CIA. Its main contacts at State are with the Office of Fuels and Energy and at DOE with the Office of Policy and Evaluation. Its primary involvement and coordination with other agencies is through participation in interagency task forces.

Deputy Assistant Secretary for
International Policy Coordination

This Office is also located within the Office of the Assistant Secretary for Policy. Although its name suggests that it might play an active role in international energy policy, at the time of our review organization orders defining its purpose and functions had not been issued.

Energy Policy Committee

The Energy Policy Committee is an intra-agency group that coordinates energy policy issues among relevant Commerce offices. It is chaired by the Energy Group, under the Office of Ocean, Resource, and Scientific Policy Coordination and has representatives from the major divisions within Commerce which might be affected by U.S. energy policy. It meets about once or twice a month, as business demands, and usually at the initiative of the Energy Group. Other Commerce offices can request meetings.

At the meetings, the Energy Group distributes policy papers from other executive agencies which require comments from the Commerce Department. Relevant Commerce offices prepare proposed comments and return them to the Energy Group. If the Group disagrees with the proposed comments, it tries to reach agreement with the commenting office, but if agreement cannot be reached, the matter is referred to a higher level (i.e., Deputy Assistant Secretary and Assistant Secretary level).

Although the Energy Group claims to be Commerce's focal point for coordination of domestic and international energy issues, it appears that the Group was not aware of, much less directly involved with, Commerce's participation in an important inter-agency policy study on the export of oil and gas production equipment and technology to Communist nations. In commenting on our draft report, NSC advised that energy analysts in the Office of the Assistant Secretary for Policy were not directly involved in this issue because of the dominance of trade and security considerations; consequently, senior policy officers acted on this issue.

Assistant Secretary for Industry and Trade

This Assistant Secretary is head of the Industry and Trade Administration and the principal Commerce officer responsible for promoting progressive business practices and world trade, strengthening the U.S. international trade and investment position, supporting a vital private economic sector, and assisting in adapting to changes within the U.S. economic system; he:

- Proposes general Federal policies and programs for improving and expanding U.S. economic and industrial strength.
- Advises on international economic and domestic business policy, conducts research and analysis, and formulates domestic and international economic and commercial programs for trade, finance, and investment.
- Conducts programs involving, among others, the expansion of international commerce (including East-West trade and other commercial relations), import quota administration, and export administration.
- Jointly with the Chief Economist collects, analyzes, and disseminates information on various industries, commodities, markets, and sectors of the economy and carries on a research program concerning U.S. industrial performance.

Five bureaus in the Industry and Trade Administration can affect or be affected by U.S. international energy policy formulation and implementation; the Bureaus of (1) Trade Regulation, (2) East-West Trade, (3) Domestic Business Development, (4) Export Development, and (5) International Economic Policy and Research. Each Bureau is headed by a Deputy Assistant Secretary. Based on our review, only the first two Bureaus are involved to any appreciable extent in formulating international energy policy.

Bureau of Trade Regulation

This Bureau manages export administration and related activities under the Export Administration Act, as amended, including advice and assistance on regulating exports of U.S. goods and technology for purposes of national security, foreign policy, and short supply and developing and coordinating policies and measures concerning foreign boycotts against countries friendly to the United States.

The Bureau also performs national defense and industrial mobilization functions, including assuring industrial resources for national emergencies and an adequate supply of strategic, critical, and other products and materials for defense and defense-supporting activities and essential civilian needs.

Exports of most commercially available commodities 1/ are regulated by the Secretary of Commerce under the authority of the Export Administration Act, as amended, which states that controls may be used to (1) protect the national security, (2) further foreign policy, or (3) prevent excess drain of scarce materials. The law has been applied to certain types of energy exports on all three points.

Most of the Bureau's activities are geared to administering existing laws, not formulating new policy. The Bureau would become involved if the International Energy Agency's Emergency Oil Sharing System was activated and if the United States had to share domestically produced oil with other International Energy Agency nations. When new policy is being considered or formulated, the Bureau necessarily is involved--if only as technical adviser concerning the feasibility of administering new laws. The Bureau particularly the Deputy Assistant Secretary, has been considerably involved in the interagency formulation of policy on whether controls for national security and foreign policy reasons should be placed on exports of oil and gas production equipment and technology to Communist nations.

Bureau of East-West Trade

The Bureau's functions, among others, are to provide analytic support for the development of trade policy and conduct of trade negotiations with Socialist nations, coordinate policies and programs for trade promotion and other commercial relations with Socialist nations, perform economic analyses of problems peculiar to East-West trade, and study market potential for U.S. trade with Socialist nations.

Within the Bureau, the Office of East-West Policy and Planning focuses on policy formulation. The two principal international energy policy issues that the Office has been concerned with are (1) imports of energy, principally liquefied natural gas from Socialist nations, and (2) export of energy technology to Socialist countries, particularly controls over such exports to the Soviet Union.

In commenting on our draft report, we were advised by NSC that the Industry and Trade Administration was abolished in a Commerce Department reorganization. Its functions and responsibilities are

1/Exceptions include munitions, which are licensed by the Department of State and nuclear material and production facilities which are licensed by the Nuclear Regulatory Commission.

now contained in the International Trade Administration under the overall direction of the Under Secretary for International Trade, who oversees three Assistant Secretaries. The functions of the Bureau of Trade Regulation are now under the Assistant Secretary for Trade Administration. The functions of the Bureau of East-West Trade are now in the Office of East-West Trade, which reports to the Assistant Secretary for Trade Development.

Other offices

Other offices within Commerce, such as Maritime and the National Oceanic and Atmospheric Administrations, could conceivably become involved in policy formulation, but only on very specific issues.

OFFICE OF MANAGEMENT AND BUDGET

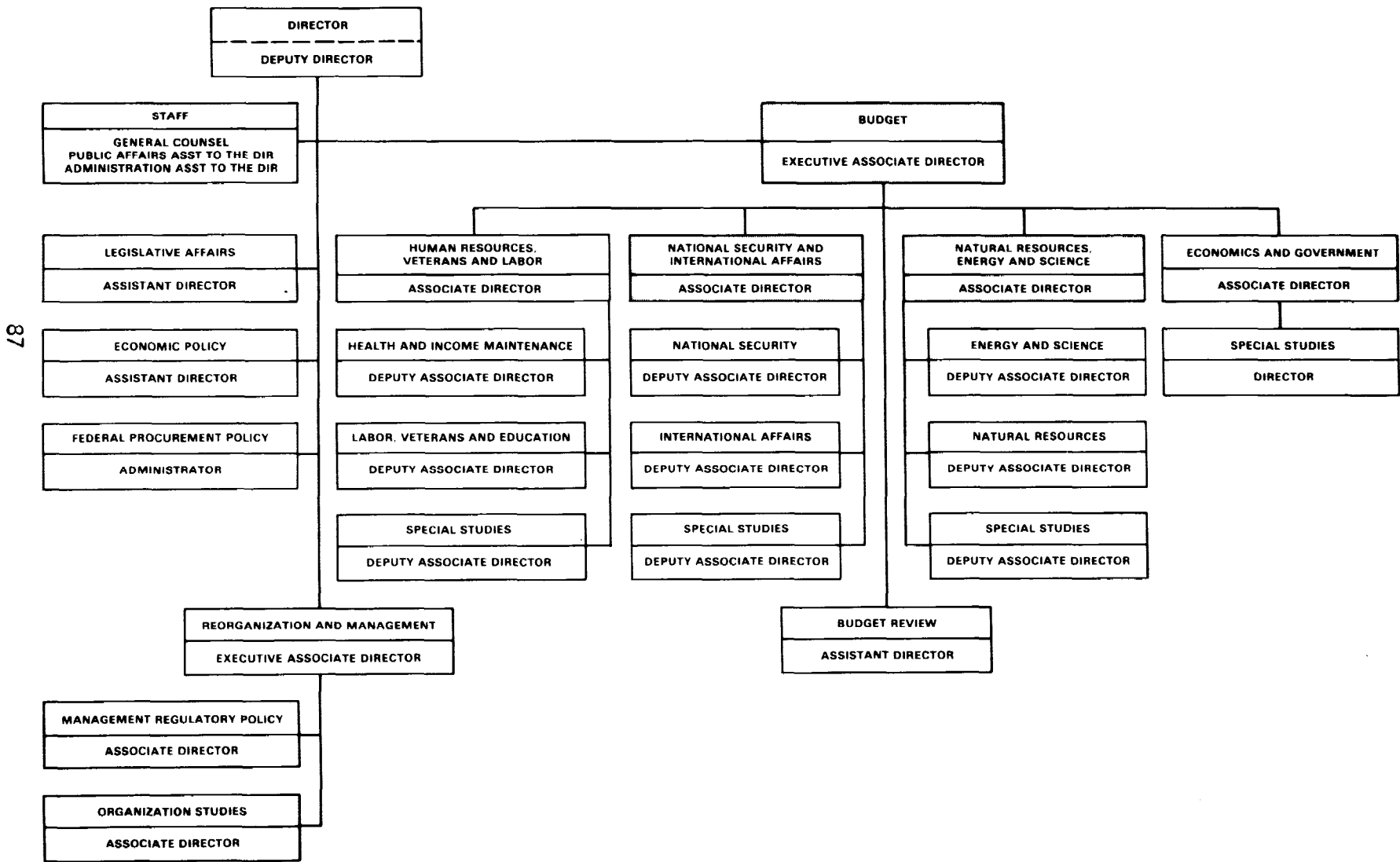
OMB is in the Executive Office of the President and is headed by a Director. Its primary functions are budget formulation and review; management oversight for the executive branch; coordination of Government activities, such as proposed legislation; development of regulatory reform; evaluation of program objectives; and advising the President generally on the progress of work performed by the Government.

The largest component of OMB falls organizationally under the Executive Associate Director, who oversees five major offices: Human Resources, Veterans and Labor; National Security and International Affairs; Natural Resources, Energy and Science; Economics and Government; and Budget Review. (See chart 10.)

Two of these offices have responsibilities for international energy policy. The primary office for oversight of energy is Natural Resources, Energy and Science, which reviews the budgets of the various energy agencies. National Security and International Affairs also has important responsibilities because of its oversight of some key departmental offices, such as DOE's Office of International Affairs and State's Office of Fuels and Energy.

OMB has an important role in formulating international energy policy. We were informed that it does this first and foremost through its budget planning process. Budget reviews are held in the spring and fall. (The fall review examines next year's budget; the spring review serves as a guide for getting ready for the fall process.) Major policy proposals necessarily involve budgetary outlays, some of which are very substantial. Part of OMB's role is to examine the adequacy of the analyses supporting major policy proposals. If it believes an analysis is faulty or unconvincing, it can oppose approval of proposed programs or

CHART 10
OFFICE OF MANAGEMENT & BUDGET



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seek modifications designed to alleviate its objections. This means there can be major disagreements between agencies concerning which proposals to fund.

According to one NSC official, perhaps as many as one-third of the interagency policy reviews of international energy policy arise as a result of OMB initiatives. OMB played a major role in initiating policy formulation on at least one of the five issues we examined in detail. It also played a significant role in other important international energy policy issues we examined.

DOMESTIC POLICY STAFF

The Domestic Policy Staff is part of the Executive Office of the President and is headed by an Assistant to the President. It assesses national needs and coordinates the establishment of national priorities; recommends integrated sets of policy choices; provides a rapid response to Presidential needs for policy advice on pressing domestic issues; and maintains a continuous policy review of ongoing programs. Since the Staff has a major role in formulating and coordinating energy policy recommendations to the President, such as the National Energy Plan, it necessarily has an impact on the formulation of international energy policy.

AN NSC staffer typically attends energy meetings held by the Domestic Policy Staff and vice versa. A Domestic Policy Staff member was assigned to the task force on one issue we examined.

ECONOMIC POLICY GROUP

The Economic Policy Group is an interagency body which, according to a May 1979 memorandum issued by the President, is to act as the exclusive vehicle for coordinating the formulation, execution, and presentation of the administration's domestic and international economic policies. The Secretary of the Treasury, as chairman of the Economic Policy Group, is the administration's chief economic spokesman.

This Group operates at the cabinet level. During the first half of 1977, this usually occurred through weekly meetings of an Executive Committee consisting of State, Treasury, Commerce, Labor, Housing and Urban Development, Office of Management and Budget, Council of Economic Advisers, and NSC. In August 1977, these weekly meetings were discontinued. A steering committee consisting of State, Treasury, OMB, and the Council of Economic Advisers was formed to provide week-to-week continuity by monitoring the flow of domestic and international economic policy and to check on the progress of the Group's activities. Henceforth, the Executive Committee was directed to concentrate on matters genuinely needing structured review at the cabinet level and on regular reviews of macroeconomic prospects and plans--with meetings called as issues suitable for consideration arise.

A May 1979 reorganization of the Economic Policy Group accords greater weight to the Group as a whole and to the steering committee. State was dropped from the Committee and the Adviser to the President on Inflation was added. In addition, the Vice President, the Assistant to the President for Domestic Affairs and Policy, and a representative of the National Security Adviser will participate ex officio in all committee meetings. NSC staff confirmed that a high-level member of the NSC regularly attends these meetings. At the chairman's call, meetings are to be held several times a week in the White House. The Economic Policy Group is to have an office in the White House.

Also, according to the President's instruction of May 1979, major statements on economic policy by administration officials should, whenever possible, be reviewed and coordinated by the steering committee. It is to have access to decision memorandums from agencies, the Executive Office of the President, and White House staff units which involve policy issues having significant impact on economic variables.

The Economic Policy Group had a role in one of five case studies of international energy policy formulation we examined.

COUNCIL OF ECONOMIC ADVISERS

The Council of Economic Advisers is in the Executive Office of the President. It consists of three members appointed by the President by and with the advice and consent of the Senate. One of the members is designated by the President as chairman.

The Council analyzes the national economy and its various segments; advises the President on economic developments; appraises Federal economic programs and policies; recommends to the President policies for economic growth and stability; and helps to prepare the President's economic reports to the Congress.

Council members have been used on occasion for substantial critiques of major international energy policy analyses and proposals. The Council was involved with several issues examined in this review.

CENTRAL INTELLIGENCE AGENCY

The CIA is not specifically authorized by statute to engage in policy formulation. However, key officials we interviewed at agencies involved in the process agreed that the CIA was the principal source of information and analysis on international energy developments. Consequently, it has a significant effect on the policy formulation process.

OTHER OFFICES

Several other offices are or could become involved in formulating international energy policy to a lesser extent, including the Energy Coordinating Committee, National Advisory Council, and Development Coordination Committee. These are briefly discussed below.

Energy Coordinating Committee

The Committee was established by the President in September 1978 to (1) ensure communication and coordination among executive agencies concerning energy policy and the management of energy resources and (2) develop and consider recommendations from time to time for implementing Federal energy policies or managing energy resources that involve two or more executive agencies.

The Committee, chaired by the Secretary of Energy, consists of 23 members, including 12 cabinet members. When the Committee is not meeting, its functions are assigned to an Executive Council, consisting of the Secretary of Energy as chairman, Director of OMB, Chairman of the Council of Economic Advisers, National Security Adviser, and Assistant to the President for Domestic Affairs and Policy.

As the above description indicates, the Committee is potentially capable of playing a significant role in formulating international energy policy. However, we found no evidence in the five issues we reviewed that it has done so. The Committee has met infrequently, which suggests that coordination is being accomplished in other ways.

It is worth noting that the Executive Order establishing the Committee specifically states that "the Committee shall neither substitute for nor replace Executive Office of the President clearance, review and decisionmaking procedures. Those procedures shall also be used for submitting to the President any of the conclusions or recommendations developed through the Committee's energy coordinating functions."

National Advisory Council on International Monetary and Financial Policies

The National Advisory Council is an interagency body responsible for coordinating U.S. participation in the international financial institutions as well as the policies and practices of all U.S. Government agencies which make or participate in making foreign loans or which engage in foreign financial, exchange, or monetary transactions.

The Council seeks to assure that, to the maximum extent feasible, operations of the international financial institutions (e.g., the World Bank, Inter-American Development Bank, and Asian Development Bank) are conducted in a manner consonant with U.S. policies and objectives and lending and other foreign financial activities of U.S. Government agencies. It formulates and reviews policies and programs for use by the U.S. representatives to these institutions. It provides advice to the Secretary of the Treasury (U.S. Governor of the international financial institutions) on policies and proposed transactions of these institutions.

The functions of the National Advisory Council are vested in the President but have largely been delegated to the Council and the Secretary of the Treasury who serves as Council chairman. The Secretary is authorized to instruct representatives of the United States to international financial organizations.

The members of the Council at the principal's level are the (1) Secretary of the Treasury, Chairman, (2) Secretary of State, (3) Secretary of Commerce, (4) Chairman of the Board of Governors of the Federal Reserve System, and (5) President and Chairman of the Board of Directors of the Export-Import Bank.

The National Advisory Council is served by a Committee of Alternates at the Assistant Secretary level empowered to act for their principals. The alternates include the Assistant Secretaries of (1) Treasury for International Affairs, (2) State for Economic and Business Affairs, and (3) Commerce for Policy, as well as high-level representatives from the Federal Reserve and the Export-Import Bank.

The Council is also served by a staff committee of professional members from the National Advisory Council agencies. A Treasury representative serves as Secretary of the Council and as Chairman of the Council Staff Committee.

The National Advisory Council's purview is not energy per se and its focus is narrower than that of other interagency groups previously discussed. The Council did play a major role in formulating policy on one of the five international energy policy issues examined.

Development Coordination Committee

The Development Coordination Committee is an interagency group for coordinating development assistance policy. The Administrator of the Agency for International Development at the time of our review was the President's and the Secretary of State's principal adviser on development programs and policy and the executive branch's principal spokesman to the Congress on development assistance and he had a major voice in all economic decisions having a major impact

on developing countries. The Development Coordination Committee assists the Administrator in carrying out his functions.

The Committee attendees are at the Deputy or Assistant Secretary level. As of May 15, 1978, its regular members included State, Agency for International Development, Treasury, Commerce, Labor, Agriculture, OMB, Overseas Private Investment Corporation, NSC, the Special Trade Representative, and ACTION. As specific issues arise, representation by other agencies, such as DOE, is arranged. The Committee is staffed by the member agencies.

The Development Coordination Committee has five subcommittees. One of these is a subcommittee on multilateral aid which provides advice on international loans to the Secretary of Treasury, who instructs U.S. executive directors of the multilateral banks.

The Development Coordination Committee was involved in one of the five issues we examined.

In October 1979, the International Development Cooperation Agency was established by a reorganization plan to place U.S. overseas economic-development activities under the guidance of a single agency. The agency director is now the principal international development adviser to the President and to the Secretary of State and chairs the Development Coordination Committee. The Agency for International Development is one of the component agencies. The Director of the International Development Cooperation Agency is also a member of the National Advisory Council, which advises the Secretary of Treasury on policies for the international financial institutions.

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

July 3, 1980

Dear Mr. Fasick:

We appreciate the opportunity afforded by your letter of June 3, 1980, to provide consolidated Executive Branch comments on the draft report to the Congress entitled, "Formulation of US International Energy Policies."

The following comments generally are limited to the accuracy of statements in the draft report that are presented as factual; they do not contest the GAO's interpretation of events or judgments, although in some instances we do not agree.

Chapter 1

References to State Department organization in this field on page 4 (and in Appendix I, page 103), are out of date. (See pp.2 and 63) A revised organizational chart of the Bureau for Economic and Business Affairs is attached.

On page 5, change "Department of Defense" to "national defense." (See p.3)

Classification issues: none.

Chapter 2

The criticism on pages 20-22 and 24 that the formulation of international energy policy is ad hoc seems to depend on the assumption that five discrete interagency studies examined by the GAO are fully representative of the process of international policy making. During 1979 and the first half of 1980, comprehensive international energy strategies -- although not a complete US policy compendium -- emerged from Executive Branch preparations for and debate at the International Energy Agency's frequent meetings and the Tokyo (1979) and Venice (1980) Economic Summit meetings. (See pp.13 to 15.)

These include:

-- Reduced import dependence in the US through a range of domestic policies including conservation, oil price de-control, fuel switching, alternative fuels development and the other components of our domestic energy program.

-- Coordinated policies among consuming countries. The IEA has developed a system of national oil import objectives which could be converted to ceilings during an emergency. The Economic Summit in Venice agreed on several major energy initiatives including expanded development of non-oil energy supplies, reduction of the energy/GNP ratio, reduction of the share of oil in energy supplies, doubling of coal use and other measures.

-- Emergency management capabilities within the IEA to assure that oil supplies are distributed equitably in the event of a supply disruption. Policies range from careful consultation, which proved highly effective during the Iranian shortfall, to a formal trigger and allocation system which can be used in the event of severe disruption.

-- A comprehensive network of bilateral relationships with key producing countries through which we have stressed the common interests of producers and consumers in a smooth evolution of the world energy system away from fossil fuels.

Although the elements of this strategy are individually identifiable, collectively they represent a cohesive, comprehensive policy.

We suggest that this broad view of international energy policy be inserted so as to provide better perspective for understanding the five ad hoc policy studies.

The statement of DOE's role at the opening of the Conclusions section, page 23, would be more accurate if it were changed to read: "The law creating DOE assigns it a central role in the formulation of international energy policies directly affecting energy in the United States, while confirming the State Department's primary role in the conduct of foreign energy policy." (as stated on page 1, Chapter 1) (See p. 15)

Classification issues: none.

Chapter 3

The statement of page 33 that "the United States would have to absorb the shortfall" should be corrected to read "its proportionate share of the shortfall" etc. (See p. 21)

The paragraph at the bottom of page 43 should state the paper was to be discussed, rather than acted upon, at the meeting mentioned. (See p. 27)

The sentence at the top of page 44 should be changed to read: "The paper was to be presented at a subsequent meeting," etc.

(See p. 27)

The last paragraph on page 44 implies a position by the Department of Energy that differs from its actual or final position. This confusion of the reader could be avoided by deleting the reference to Energy. (See p. 27)

The last paragraph on page 45 contains an inaccurate conjecture; the July 17 meeting was postponed because the members' workload was too heavy to meet this schedule. (See p. 28)

The second sentence of the third paragraph on page 52 should be clarified as follows: "State officials provided documents on established US policy but not on how that policy was developed, except for the paper noted (in the report) below." (See p. 32)

The second paragraph on page 73 would be more meaningful if the word "uncooperativeness" were deleted and "unwillingness to discuss positions taken by individuals" were substituted. (See p. 43)

The section on gas imports would be given better perspective if the report noted the legislative enactment of the Natural Gas Policy Act, the Energy Department effort to stimulate production of domestic gas, and the consequent development of the Energy Department's "alternative fuel cost test" for reviewing proposed gas import prices.

Classification issues: All of the passages in this chapter may be declassified except: (See GAO note.)

GAO note: For security reasons, these items have been deleted from the report.

Appendix I

Last paragraph of page 97 should be changed to clarify "Council on Economic Affairs" (Council of Economic Advisers?). (See p. 58)

Page 125, last line, middle paragraph. Add as follows: "... Affairs; and for Near East and African Affairs." (See p. 75)

Page 125, bottom paragraph. Add footnote as follows: (See p.75)

Policy Plans and NSC Affairs ^{1/}

^{1/} This office is now assigned directly to the Office of the Under Secretary for Policy

Second paragraph on page 128 should be changed in its reference to the Joint Chiefs of Staff Section to read: "Serving the Joint Chiefs of Staff is the Joint Staff, composed of," etc. Similarly, change the last line to "The Joint Staff," etc. (See p. 78)

The eighth line on page 129 should read: "... the role of the Joint Chiefs of Staff is equal with" The tenth line should read: "... the role of the Chairman, Joint Chiefs of Staff, is" (See p. 79)


The material on pages 136-140 is out of date. The current structure and responsibilities of the Interantional Trade Administration and its components are described in the enclosed document, "Department of Commerce, The International Trade Administration." (See pp. 84 to 86)

Commerce disputes the statement on page 131 that energy policy is "on the back burner" at Commerce. A small energy office has been maintained, and energy issues are addressed by the Department's senior policy officers. (See p. 80)

In addition, the paragraph on page 136 describing the role of energy analysts should be amended. Energy analysts in the Office of the Assistant Secretary for Policy were not directly involved in this issue because of the dominance of trade and security considerations; consequently, senior policy officers acted on this issue. (See p. 83)

At the bottom of page 148 and top of 149, please delete the reference to the defunct post of Assistant to the President for Economic Affairs. (See p. 91)

Sincerely,

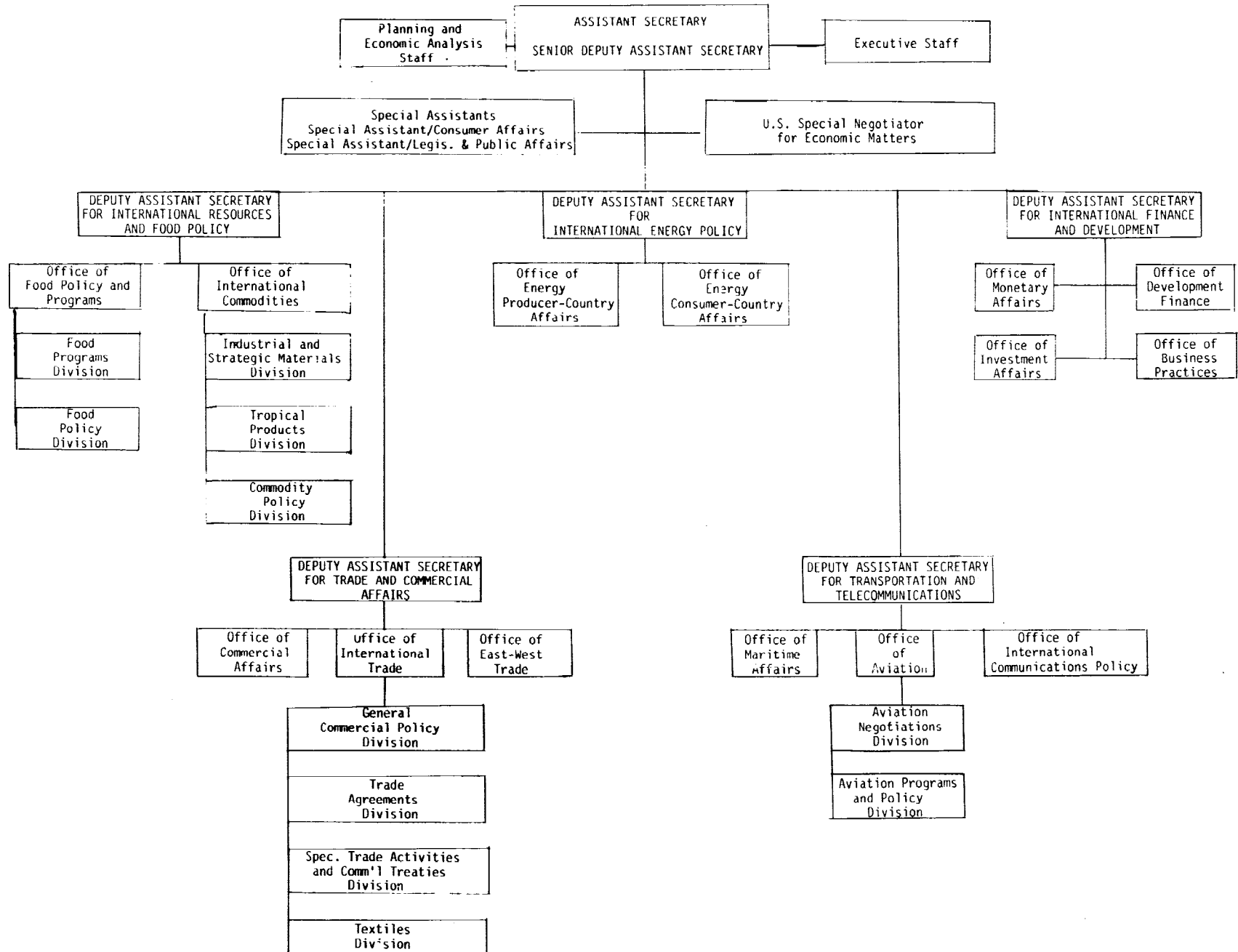

Christine Dodson
Staff Secretary

2 Attachments

1. Organizational Chart
2. Dept of Commerce/ The International Trade Admin

Mr. J. K. Fasick
Director
United States General Accounting
Office
Washington, D.C. 20548

BUREAU OF ECONOMIC AND BUSINESS AFFAIRS



DEPARTMENT OF COMMERCE
THE INTERNATIONAL TRADE ADMINISTRATION

SECRETARY OF COMMERCE

Trade, as it involves both international and domestic issues, will become the central mission of the Department and the principal responsibility of the Secretary of Commerce. The main goal of Commerce will be to foster international competitiveness of U.S. industry.

The Secretary will be ultimately responsible for the following areas of trade activity: export expansion, including both overseas and domestic commercial services; export administration, particularly the export control system; and import regulation programs of antidumping and countervailing duties.

The Department will have a key role in trade policy development and will provide much of the staff and operational base for negotiation and program responsibilities of the United States Trade Representative (USTR).

The Secretary will serve as an ex-officio member of the Board of the Export-Import Bank.

As chief operational officer of Commerce, the Secretary will assure that other elements of the Department whose activities relate to international trade shall appropriately support and coordinate with the Under Secretary for International Trade. Included among these activities are industry sector analysis, business development loans, census trade statistics, trade adjustment assistance for businesses and communities, minority business development, industrial productivity analysis, maritime, industrial innovation, cooperative technology, product and industrial standards, and secretarial field representation.

UNDER SECRETARY FOR INTERNATIONAL TRADE

The Under Secretary for International Trade will oversee the International Trade Administration (see the attached organizational chart) and will be responsible for overall development and management of the trade functions in the Department. In the Secretary's absence, the Under Secretary will represent the Department on the Trade Policy Committee and as ex officio member of the Board of Export-Import Bank of the United States. The Under Secretary will meet with foreign visitors both in the United States and abroad to discuss a broad range of trade matters.

The Under Secretary also will coordinate trade regulation, trade policy and programs and trade development to ensure consistency between Administration policy and trade operations. To accomplish this, the Under Secretary will oversee coordination between and among the following areas:

- investigation/determination functions and the import policy recommendation function;
- sectoral analysis capability and trade policy and regulatory functions;
- Foreign Commercial Service and trade policy and regulation; and
- industrial innovation and trade development.

The Deputy Under Secretary will serve as the principal deputy for the Under Secretary for Trade. In the Under Secretary's absence, the incumbent is to act in place of the Under Secretary in all matters pertaining to trade. The Deputy Under Secretary will have no direct operational or program responsibilities.

In addition, the Deputy Under Secretary will be responsible for:

- oversight of day to day operations to ensure that these activities are conducted efficiently and smoothly; and
- administrative functions (e.g. agency level personnel, budget, administrative services, and others).

FOREIGN COMMERCIAL SERVICE

The Foreign Commercial Service will be responsible for assisting American business abroad through counseling marketing data, project development assistance and liaison with foreign government agencies. The Service will provide direct support to Commerce overseas promotional activities such as trade missions, trade fairs, and procurement conferences. It will be responsible for the development of marketing and commercial intelligence through the Worldwide Information and Trade System (WITS) for dissemination to the American business community.

The members of the Service will serve as part of the U.S. Embassy staffs and will report directly to the Ambassador or Chief of Mission in each country. The Foreign Commercial Service will provide personalized assistance to American business persons abroad by providing support to Export Development Offices, trade missions, fairs, catalog shows and other activities. The Service will develop trade leads, identify potential agents/representatives and develop other commercial intelligence for transmittal to the East-West Trade and Export Development units in Washington and the U.S. Commercial Service. It also will develop information and report to Commerce on foreign commercial and industrial trends. The commercial intelligence data obtained by the Service will be disseminated in part through the WITS. The Service will provide support to Commerce units in import and export administration and monitoring of multilateral trade agreements. It will assist U.S. business persons in resolving trade complaints against foreign firms and governments.

The Foreign Commercial Service will be headed by a Director General who will represent the Department on the Board of the Foreign Service and in other matters relating to the commercial responsibilities of the Departments of State and Commerce.

ASSISTANT SECRETARY FOR TRADE DEVELOPMENT

The Assistant Secretary for Trade Development will be responsible for carrying out the policies and programs of the Department to promote world trade and to strengthen the international trade and investment position of the United States.

In carrying out these functions, the Assistant Secretary will be responsible for conducting the Department's programs for participation in international trade fairs, trade missions, and other overseas trade promotions; programs conducted within the United States to expand the export-consciousness of American firms and to facilitate entry into international trade; and efforts to provide assistance to American exporters through the facilities of the U.S. Commercial Service and the Foreign Commercial Service. With respect to East-West trade, the Assistant Secretary will be responsible for conducting the Department's program for expanding trade and investment in Communist countries, and for the formulation and analysis of policies with respect to U.S. commercial policy in those countries.

The Assistant Secretary will be the person responsible for managing and closely coordinating the related trade expansion programs. This organizational structure will allow, for the first time, program management by one person of export expansion activities of the Foreign Commercial Officer in, say, Kuwait, the Domestic Commercial Officer in Indianapolis, and the relevant trade specialist in Washington. It will assure unified management of trade development functions. The Assistant Secretary will advise the Secretary and Under Secretary for International Trade of policies and programs relating to these functions. The Assistant Secretary will be the National Export Expansion Coordinator.

The specific programs and activities for which the Assistant Secretary will be responsible are detailed on the following pages.

EXPORT DEVELOPMENT

The Export Development unit will have primary responsibility for planning the export development programs in non-Communist countries. Its mission will be to expand U.S. exports. It will develop promotional programs conducted by the U.S. and Foreign Commercial Services and will provide them with analytical and technical support.

This unit will perform the program planning and evaluation activities for the Assistant Secretary and will have responsibility for determining program priorities for the Foreign and U.S. Commercial Services. It will support overseas promotional activities through management of Export Development Offices, development of overseas trade missions, sponsorship of special missions, and other trade and investment activities. This unit, particularly its staff of country commercial experts, will be responsible for providing counseling services to U.S. business on foreign markets, for market research, and for technical support to other units of Commerce.

This unit will support staff for Commerce information programs, including the Worldwide Information and Trade System (WITS). Such information will be disseminated through the Foreign and U.S. Commercial Services for use by the U.S. business community. This unit will also conduct a nationwide campaign on export awareness through specialized counseling, seminars, publications, joint industry/government activities, and assistance in competing for major overseas projects. The Foreign Commercial Service will stage promotional events and the U.S. Commercial Service will assist in identifying participants.

Additionally, this unit will coordinate the program activities of the President's Export Council which provide advice from the private sector to the Secretary and the President on issues relating to export expansion activities.

EAST-WEST TRADE

The East-West Trade unit will help American firms conduct business in communist countries; will develop and explain East-West trade policy; will strengthen governmental mechanisms for expanding trade; and will expand understanding of issues and opportunities in East-West trade.

This unit will conduct the day-to-day bilateral commercial contacts with the embassies and other communist government entities in the U.S. It will provide support for the Cabinet-level joint economic commissions, will seek resolution of commercial problems, and will assist in the development of commercial policy toward individual communist countries. It will collect, analyze, and disseminate information about economic conditions, trade-related laws and regulations and market opportunities, and will advise U.S. firms on country oriented trading problems. It will also maintain day-to-day liaison with the major private U.S. bilateral councils on eight individual communist countries.

This unit will offer practical services to help U.S. firms promote and market products in communist countries. It will conduct briefings on "how to do business," will arrange contacts between U.S. business and foreign trade organization officials, will disseminate information on business opportunities in communist countries, and will assist U.S. firms in transaction problems involving Federal agencies. In addition, this unit will plan, recruit for, and manage trade promotion events such as fairs, technical sales seminars, and catalog shows in communist countries.

Lastly, this unit will formulate, analyze and make recommendations about legislative and broad policy issues arising in East-West trade. It will study trade potential, balance-of-payments projections, econometric modeling of communist economies, and the economic impact of East-West trade on the United States, its communist trading partners, and other nations. It will also maintain a major statistical data base on East-West trade and will provide analyses of trade trends.

U.S. COMMERCIAL SERVICE

The U.S. Commercial Service will represent Commerce with the business community in the United States. It will provide business with information, technical assistance and counselling on export and investment matters. The Service will assist in identifying potential U.S. exporters and participants in overseas promotional events.

The Service will administer a system of district offices, currently 44, located in commercial centers throughout the United States. It will offer U.S. firms counselling on overseas marketing, technical export information, guidance on the marketing opportunities, and advice on marketing strategies. The Service will conduct seminars, workshops, and conferences. It will utilize Export Development and East-West Trade information services, including the Worldwide Information and Trade System (WITS). The Service will assist in obtaining commercial information from U.S. firms for use in Export Development planning and evaluation. It will also advise the business community of significant trade developments, trade policy issues and technological developments.

The U.S. Commercial Service will publish Commerce Business Daily.

ASSISTANT SECRETARY FOR INTERNATIONAL ECONOMIC POLICY

The Assistant Secretary for International Economic Policy will be responsible for developing and operating an effective trade policy implementation mechanism within the Department and for operating a variety of trade and investment programs to improve the U.S. trade position.

The Assistant Secretary will provide overall direction and coordination of international economic policy formulation, research, and analysis within the Department, advising the Secretary and Under Secretary on such policies and programs.

The Assistant Secretary will be principally responsible for the follow-up, implementation, and monitoring of the MTN. The Assistant Secretary will be responsible for closely coordinating with other involved offices and agencies these responsibilities and the process of educating U.S. business on the rights and opportunities resulting from the MTN.

The Assistant Secretary will support the Department's activities in international trade, economic, and investment matters--and will be an active participant in U.S. representation in GATT, UNCTAD, and other multilateral deliberations and negotiations. The Assistant Secretary will establish and supervise the implementation of the Department's interagency policy role in such organizations as the National Security Council (NSC), United States Trade Representative (USTR), and the National Advisory Council (NAC) particular responsibility for MTN implementation and Trade Policy Committee (TPC) support.

The Assistant Secretary's immediate office will include a country analysis staff which will support certain joint economic consultative mechanisms (e.g., Korea, Yugoslavia); will operate trade facilitation efforts to resolve specific commercial complaints (e.g. Japan); and will provide staff support to the Secretary and Under Secretary for meetings with foreign visitors and trips abroad.

The specific programs and activities for which this Assistant Secretary will be responsible are detailed on the following pages.

TRADE AGREEMENTS

The Trade Agreements unit will be the primary source of trade policy development and support within the Department. It will identify key trade policy issues and will develop Departmental positions. A major responsibility of this entity will be implementation of the MTN and other trade agreements for all non-agricultural matters.

Trade Agreements' activities will include implementation and monitoring of MTN tariff and non-tariff agreements, as well as investigation and resolution of problems in foreign country application of those agreements. Another function will be the development of information and cases arising under the MTN, including the operation of the Trade Complaint Center, the central contact point to which business will bring complaints and problems regarding MTN and other trade agreements, and where the private sector will receive advice as to the recourse and remedies available to the. Operation of the private sector advisory process (ISACs) under the expanded scope of Trade Policy Committee (TPC) coverage--including investment, East-West trade, etc.--in addition to trade agreements, will be administered here.

In the import relief area, Trade Agreements (1) will provide staff analyses to be used by the TPC in reviewing and considering section 201, 301, 406 import relief cases; (2) will monitor relief actions; and (3) will develop Departmental policy on orderly marketing agreements.

Trade Agreements will develop a continuing program of examining post-MTN issues for negotiation or consultation, identifying and cataloguing foreign trade practices, such as those affecting trade in "services." It will recommend policy objectives for Departmental officials to present in interagency and international forums. In addition, it will develop plans for educating the U.S. business community on general and specific trade opportunities resulting from the MTN.

Another major function will be participation in, and, as appropriate, leading negotiations and/or renegotiations of bilateral and multilateral trade agreements, such as the expansion of MTN code agreements, commodity agreements, orderly marketing agreements, international sector agreements, etc.

Other activities will include the examination of U.S. access to raw materials and other resources located abroad and the recommendation of appropriate U.S. action in this area.

FINANCE, INVESTMENT AND SERVICES

This unit will develop and implement policies and will examine laws, regulations, and practices in the financial and investment areas to determine their effect on U.S. business operations abroad. It will recommend changes to improve U.S. competitiveness; it will monitor and analyze foreign investment in the United States; and it will lead a new Department program in support of our service industries' operations abroad.

It will represent the Department in international finance and development assistance affairs, especially those affecting export expansion. This includes providing analyses and staff support for Departmental representation on the National Advisory Council (NAC) and other bodies dealing with export finance, export and investment guarantees, and export credit insurance. It will analyze transactions of domestic and international trade financing institutions from the perspective of effects on U.S. trade. It will compare U.S. export finance practices with foreign practices and recommend needed changes. It will also provide staff support for Secretarial membership on the Export-Import Bank Board.

It will develop recommendations to improve the access of U.S. service industries to foreign markets, representing the Department at interagency and international groups dealing with service industry problems. It will coordinate closely with each of the 15-20 service sectors and associations.

It will examine the effect of U.S. tax laws and practices on U.S. competitiveness (DISC, foreign tax credits, taxation of U.S. overseas personnel, R&D). It will conduct comparative analyses of foreign competitive practices, and make recommendations for changes in U.S. treatment of export associations (Webb-Pomerene) and trading companies.

Representing the Department in matters relating to U.S. direct investment, it will analyze investment trends and consult with business on U.S. regulations and international practices affecting investment. It will recommend actions in bilateral and multilateral negotiations on investment. It will develop positions on multinational corporation (MNC) issues, providing staffing for Departmental participation in MNC code issues and investment disputes. It will advise on programs, policies and legislation affecting investment abroad and will analyze the economic effects on such investment.

It will operate statutory programs to monitor and analyze foreign investment in the United States. It will identify problems and will recommend remedial action as necessary.

POLICY PLANNING AND ANALYSIS

This unit will conduct research and analysis on U.S. trade and on all factors affecting future trade prospects, developing policy recommendations to enhance the international trade competitiveness of the United States. It will be the principal source within the Department for developing positions on international positive adjustment policies and on international sectoral issues. On the basis of its own research and analysis as well as that of the new Bureau of Industrial Economics (BIE) and other parts of the Government, this unit will forecast future trade trends and will be responsible for developing longer term policy options for U.S. trade and investment.

In conducting policy analyses of positive adjustment issues and international sectoral issues, it will draw on the micro-economic and industry analyses of BIE, using these studies and data along with other information to formulate and evaluate policy options and to recommend policy positions. It will develop positions to take on international positive adjustment policies in the OECD and other forums, it will focus on sectoral issues related to MTN implementation and to other trade and investment agreements and policies, and will participate in or will head U.S. delegations to international meetings concerned with sectoral or positive adjustment issues.

In supporting the development of faster U.S. export growth and a stronger competitive position, this unit will examine the effects of trade incentives and disincentives of the U.S. and other governments. It will serve as the central contact point for collecting and evaluating information on the likely effects of changes proposed to improve the U.S. export position, developing policy options and recommendations.

It will also forecast longer-term trade developments, with particular emphasis on identifying future trade problems that will face the United States. It will identify longer-run trade and investment policy objectives, basing these on its forecasts and its program of research into U.S. trade and the factors affecting U.S. competitiveness. It will evaluate the effectiveness of U.S. trade and investment policies and will compare these with major competitor nations. It will use mathematical models to simulate the effects of future policy alternatives, and will provide the planning framework for trade policies and programs.

The Policy Planning and Analysis unit will also develop and maintain computerized data bases and provide trade and international economic statistics to other parts of the Government and to U.S. business.

TEXTILES AND APPAREL

The Textile and Apparel unit will be responsible for the economic well-being of the U.S. textile and apparel industries, domestically and internationally. Its major efforts will include negotiating bilateral textile and apparel import restraint agreements;* monitoring imports from controlled (agreement) countries and uncontrolled countries; providing staff and technical support to the Committee for the Implementation of Textile Agreements (CITA); and, promoting the expansion of exports of textiles and apparel.

This unit will prepare monthly performance reports which show imports compared to restraint levels for each bilateral agreement country. Problems of implementing the agreements will be analyzed and brought before CITA for resolution. This unit will make special tables and analyses used by the U.S. negotiators of textile and apparel agreements. To accomplish this, it will gather and report basic statistical data on imports. It will prepare monthly reports on the overall import picture, comparing current monthly data with prior years. It will be concerned with monitoring imports from uncontrolled countries. It will classify problems arising under agreements and will train foreign officials in U.S. classification procedures.

In addition, this unit will provide current economic data and analyses of conditions in the domestic textile and apparel markets, including the impact of imports on these markets. It will be responsible for the textile and apparel export expansion program and, in conjunction with the Office of the United States Trade Representative and other organizations, reduction of non-tariff barriers. Finally, it will provide structural assistance to the industry in the form of new technology, research and development, and management training.

* This will be done as part of negotiating teams made up of State, Labor, and headed by the Chief Textile Negotiator from the Office of the United States Trade Representative.

ASSISTANT SECRETARY FOR TRADE ADMINISTRATION

The Assistant Secretary for Trade Administration will have overall responsibility for the management and operation of the principal programs involving the regulation of imports and exports. The incumbent will advise the Under Secretary and Secretary on the policies and programs relating to trade administration.

The Assistant Secretary will be responsible for import administration: antidumping investigation and enforcement and countervailing duty investigation and enforcement. The Assistant Secretary will be directly assisted by an Office of Antidumping and Countervailing Duty Policy of 15 people.

The Assistant Secretary will be responsible for export administration: export licensing and enforcement, including national security, foreign policy, and short supply export controls.

The Assistant Secretary will also be responsible for a number of special regulatory programs: antiboycott compliance, industrial mobilization, foreign trade zones, and several other statutory import programs.

The specific programs and activities for which the Assistant Secretary will be responsible are detailed on the following pages.

IMPORT ADMINISTRATION

The Import Administration unit will be responsible for the investigation of antidumping and countervailing duty cases. Following investigation, this unit will make a formal recommendation for disposition of the case.

In countervailing duty cases, this unit will investigate and determine whether a subsidy is being provided with respect to the manufacturer, production or exportation of merchandise imported into the United States. As part of the same process, the International Trade Commission (ITC) investigates and determines whether an industry is materially injured or is threatened with material injury. If both of these determinations are positive, a countervailing duty is imposed in the amount of the net subsidy determined to exist.

In antidumping cases, this unit will investigate and determine whether merchandise is sold or is likely to be sold in the United States at less than fair value. As in countervailing duty cases, the ITC investigates material injury. If both determinations are positive, an antidumping duty is imposed, equal to the amount by which fair foreign market value exceeds the U.S. price of the merchandise.

In addition to these two functions, this unit will also include the following import related activities:

- The foreign trade zone program evaluates and processes applications by port communities seeking to establish limited duty free zones as part of local economic development programs.
- Special statutory import programs related to the import of quota allocation watches and watch movements from U.S. territories, and the import of education, scientific, and cultural materials by nonprofit institutions pursuant to the Florence Agreement.

EXPORT ADMINISTRATION

The Export Administration unit will be responsible for export controls for reasons of national security, foreign policy, and short supply. The major functions of the program are policy planning, licensing, compliance, and short supply monitoring and licensing.

The policy planning function includes developing and coordinating recommendations on export control policies and programs, reviewing export license applications that present particular foreign policy on security issues, and coordinating with other Executive Branch agencies on licenses and policies requiring interagency review.

The licensing function includes the development of export control procedures and regulations, technical analysis and review of products, participation in interagency review of license applications, statistical and analytical reports of export licensing activities, and formal issuance of licenses.

The compliance function includes the investigation and prosecution of export control violations.

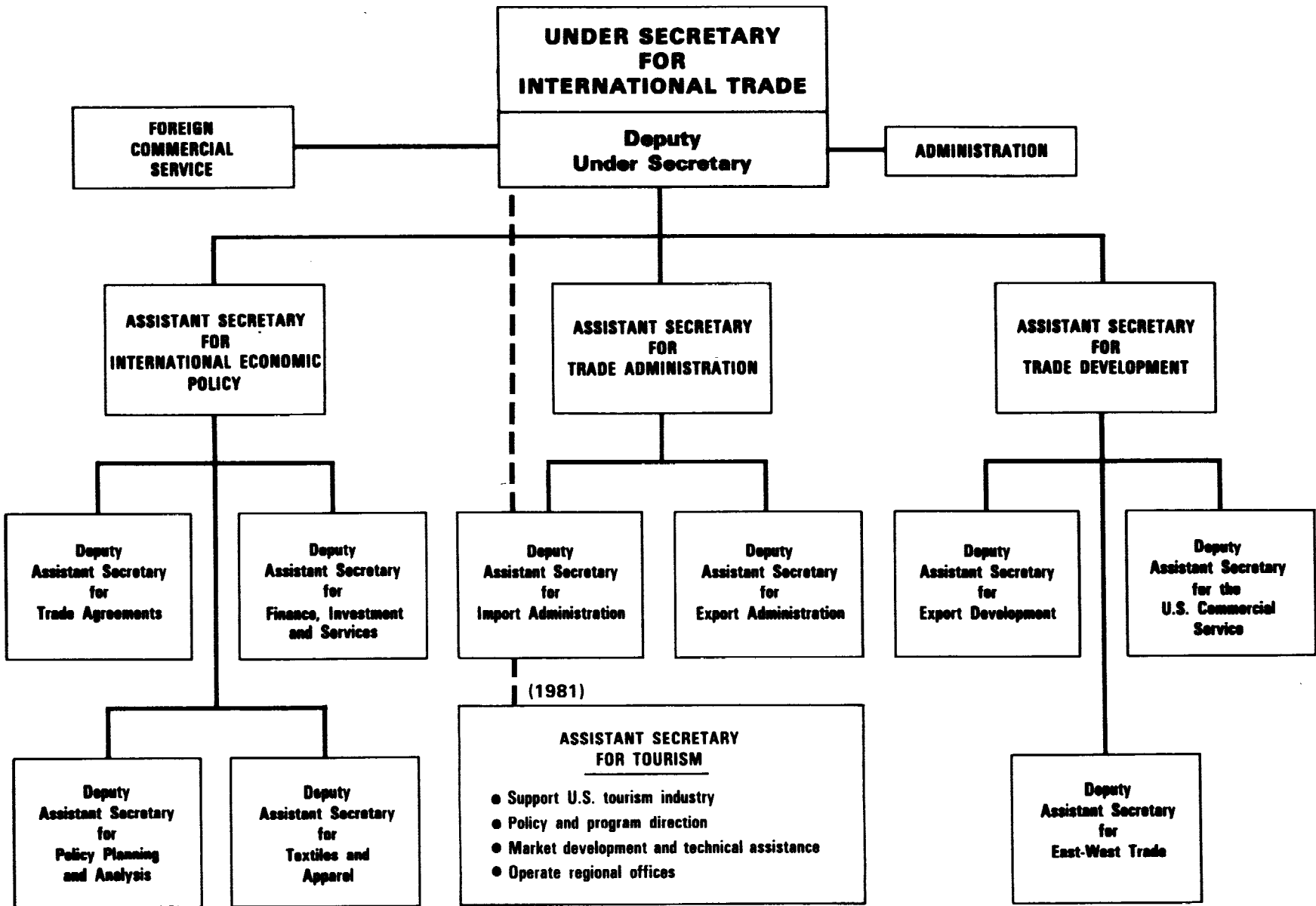
The objective of the short supply function is to restrict the excessive export of items in domestic short supply and to reduce the inflationary impact of foreign demand.

In addition to export controls, this unit will include the antiboycott and industrial mobilization programs.

The antiboycott program involves the administration and enforcement of the foreign boycott provisions of the Export Administration Act and the monitoring of the impact of foreign boycotts on the United States. This includes the investigation and enforcement of compliance with the law as well as the processing of boycott reports.

The industrial mobilization program monitors and assures timely availability of material and products essential to industrial performance on contracts for national defense. This includes stockpile management of strategic and critical materials and an emergency preparedness function designed to identify industrial products and facilities which are essential to mobilization readiness, national defense, or post-attack survival and recovery.

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International Trade Administration**



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