

The Association for Diplomatic Studies and Training
Foreign Affairs Oral History Project

ASSISTANT SECRETARY JULIUS L. KATZ

Interviewed by: Charles Stuart Kennedy
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INTERVIEW

Q: Today is May 12, 1995. This is an interview with Julius L. Katz, being done on behalf of the Association for Diplomatic Studies, and I'm Charles Stuart Kennedy. I wonder if we could start by at the beginning. Can you tell me when and where you were born, and a little about your family, to begin with?

KATZ: Yes, I was born in New York City in 1925. I lived there until I was 18. I left then to go to war.

I returned late in December of 1945 and in September of 1946, I went off to attend The George Washington University.

Q: What was your father?

KATZ: My father and mother were immigrants. They came to the United States, I think in 1914.

Q: A good time to get the hell out of Europe.

KATZ: Just ahead of World War I. They came from an area which was called Bessarabia, which at the time was Austro-Hungary and later became Poland and Russia, and maybe Romania, and now maybe Moldova. They lived in a little community that now probably no longer exists. I could never find it on a map.

Q: What did your father do?

KATZ: He was a carpenter to start with, and then became a milliner, and they were very much middle class, or working class.

Q: Pretty much the immigrant, working one's way up.

KATZ: Very much so.

Q: Where did you go to high school?

KATZ: I went to high school in Brooklyn. I spent most of my youth in Brooklyn. I was born in Manhattan, but then the family moved to Brooklyn when I was very young. I went to Lafayette High School and went to Brooklyn College for one year right after the start of the war, with my mind elsewhere, not terribly serious about it, wondering why I was going at all. I was in a pre-engineering program for which I was eminently ill-prepared. For some reason, I enrolled in the summer session at the end of the first academic year, and just barely got through that before I entered the army.

Q: You went in the army when?

KATZ: In August of 1943.

Q: It was very hard for any man of your age to take anything seriously, when you knew that the military was going to take over.

KATZ: In fact I had applied earlier, just before I was 18, for a meteorology program, in the Air Force, and I was about three weeks too young to get into that, so I ended up being drafted, and went to South Carolina for basic training. I was accepted for ASTP, the college training program, had my bus tickets and orders, and the day before I was to leave those were canceled and just before Christmas of 1943 went on home leave and then reported to Fort Dix for transport to Europe. I spent two or three months on top of a hill in Cornwall, in England, awaiting the invasion of France.

Q: Were you assigned to a particular unit?

KATZ: Infantry.

Q: What division?

KATZ: Well, I was a replacement. I was in one of the early replacement packages right after D-Day. I think I landed on D plus five and reported to the 90th Infantry Division.

Q: What was the 90th Infantry? Was that a ...

KATZ: It was a Texas and Oklahoma division, but I think that was World War I. By World War II, it was really Texas to the Dakotas. It was basically a Midwest division. And by the time I joined it, I was in the second replacement package, so there were not very many of the original people left. The unit had been just about decimated when we got there. My regiment, the 359th, landed on Utah Beach as a backup regiment for the 4th Infantry Division, and so they went in on D-Day, and there weren't very many left of them by the time we got there.

We fought through the Hedge Row country of Normandy. We went through St. Lo, after the massive bombing, and participated in the closing of the Falaise Gap, which trapped thousands of German troops. After the breakthrough of the German lines we sped across France, walking and being trucked until we reached the south of Paris. We then went on to Rennes. We crossed the Saar River and fought bitterly to maintain a slender foothold over the river, but just as we began to widen our penetration we were pulled back to go up to the Battle of the Bulge.

Q: Were you with Patton?

KATZ: Yes. Mostly with the 3rd Army, but there was a time when we were with the 7th Army. We went up to the Bulge to relieve some units there, and then ultimately crossed into Germany. Although we mostly raced across Germany, there were pockets of resistance and little battles and skirmishes. And then we found ourselves on our way to attack Plzen when the word came that the war was over. We had moved into Czechoslovakia. We had stopped just before that to take the surrender of a Panzer armed division which was fleeing from the Russians, and after we had finished that, we were moving on toward Plzen when the war ended.

Q: Did you stay, or were you moved out rather quickly from Europe?

KATZ: No, I stayed there and the Division moved into Camp Grafenwohr, which was a huge prewar German army camp, and, I believe, still exists. I stayed there until just before Christmas. In fact, we were anxiously awaiting news about the war in the Pacific and some people had begun to be transferred there and I wasn't particularly looking forward to that. But the Division stayed intact and then were demobilized in Germany, and then got back home right after Christmas.

Q: The end of 1945.

KATZ: Yes.

Q: Then what happened?

KATZ: By then I had decided that I was interested in the Foreign Service.

Q: How did that come about?

KATZ: Well, I guess I was lying in my bunk one night and hearing advertisements on Armed Forces Radio, AFN. There was an announcement about an exam for the Foreign Service and I thought, well, that sounds like it might be interesting. Of course, I had virtually no college at that point. So when I got back home I went to the New York Public Library and started going through college catalogs and found three schools that had foreign affairs or foreign service programs. One was Lafayette College, another was Georgetown, and the other was George Washington. Georgetown just didn't seem right; I didn't know what a Jewish boy from Brooklyn would be doing at a Jesuit school, which it turns out was a wrong judgment.

Q: It's like today, President Bill Clinton was a Baptist boy from Arkansas, and ended up here too.

KATZ: I liked the idea of going to school in Washington, so I decided on GW. But first, I had a problem with my prior grades, because I had done very poorly in that one year at Brooklyn College. So I was actually admitted on probation, but did quite well there, ending up with a 3.49 grade average.

Q: Just to get a feel, what was the international relations course like at GW?

KATZ: It basically had a very heavy emphasis on history, political science, and economics. And then in my senior year, I did 30 hours of economics and then did a graduate year in economics. So I moved toward economics, but I also was very heavily into political science and international law.

*Q: Was there much connection with the State Department?
I mean, it was right down the street.*

KATZ: No; there were a number of instructors or professors who had some connection with State or with Commerce; either had worked for or some who taught at night. I don't remember at that point anybody in particular with a State Department connection, except an economics professor, who was Ted Acheson, Edward C. Acheson, who was Dean Acheson's brother. In fact, I worked for him as a graduate assistant, grading papers and occasionally taking a lecture for him. He wrote letters of introduction for me to various people which didn't accomplish much of anything.

By then I was married and I wasn't sure I wanted to take the Foreign Service exam, but I took a Civil Service exam, which was called the JPA, the Junior Professional Assistant, which just about everybody passed. But then, my wife suggested why not take the second part of that exam, which was the JMA, the Junior Management Assistant. I had some doubts about that since I knew know anything about management, nor did I have any management training. On the theory, nothing ventured nothing lost, I took the JMA. Well, it turned out that was a more difficult exam, and there were very many fewer people that took it, and even fewer people who passed it. And then if one passed the written exam, then there was an oral interview before a three-person board or committee, not unlike the Foreign Service exam. I scored very high on the exams and ended up being something like one of 37 people in the country who had come through the process. And at that point, I not only had no difficulty finding employment, I was solicited by various agencies. I had my pick and of course, my first choice was the State Department. So I went in as a JMA, but not in a management job. I went into EUR, the Bureau of European Affairs.

Q: What got you, by the time you reached graduate school, what moved you toward the economic field as a concentration by your senior year?

KATZ: I'm not really sure, because I was really very interested in international law. I don't really recall what moved me in that direction. It may have been that there were better courses, or more courses.

Q: Sometimes one's whole life is moved because of what is offered at the time.

KATZ: It's an interesting question, and I really have no good answer for it. And in retrospect, if I had it to do all over again, I probably wouldn't have done that, because of what has happened to economics. Its become so mathematical and I was not really mathematically inclined, as my pre-engineering attempt demonstrated. Although, I don't know, perhaps if I had greater interest and concentration I may have done better in math. I did rather well in the first economics courses, and having done the year, I felt encouraged to go on with it, and do the graduate year. I probably never could have done a doctorate because, as I said, it was becoming increasingly econometric.

Q: So you joined the State Department in 1950?

KATZ: 1950; May 1, 1950.

Q: Where did you go?

KATZ: I went to European Affairs, to the Office of Eastern European Affairs, EE, and one of my first office mates was Claiborne Pell, just before he left the Foreign Service.

Q: But he had been in Bratislava?

KATZ: He had been in Bratislava and he came back, and he was a special assistant to the Director, as I recall. He was not on a desk. But I was put in the economic staff of EE.

Q: What was EE? What did it comprise of?

KATZ: It comprised the Soviet Union, and all of Eastern Europe, or Central Europe, as it is now called. It was basically all the European countries of the Communist bloc. Relations were, of course, deteriorating fast in those days. We had ministers, of course, in Hungary, Romania, and Bulgaria where we had legations, instead of embassies. There was some discussion at one staff meeting on whether we ought to withdraw our missions and make them consulates, i.e., go from legations to consulates, because we regarded the countries as complete puppets of the Soviet Union. In 1949, we had broken relations with Bulgaria over some incident, this was before I got there, and soon after I got there had been several incidents with Czechoslovakia, and then in 1951 they had imprisoned a newspaperman whose name escapes me now, and that led to a series of sanctions to gain his release, which took quite a long time, some months or perhaps a year.

I remember Ellis Briggs was our ambassador at the time. He was a marvelous writer and very gifted with phrases. And there was one particular incident where Czechoslovakia was inflicted with a potato bug, and they had this big propaganda campaign, alleging that the U.S. was responsible. Briggs wrote a note taking strong issue with the allegations, but concluding with that he could not believe that even so voracious a pest as, and then gave the Latin name for the potato beetle, could nibble at the fabric of Czech-American friendship.

Q: You were new on the scene on this; what was your view of looking at the beast rather closely at that time in the 1950s of the economy of the Soviet Union and Eastern Europe?

KATZ: Well, the area was very poor, underdeveloped and barely recovered from the war. The Soviet style economy was highly inefficient. There was great privation on the part of people. Resources preponderantly were going into the military, and I can recall discussion of the annual budgets, and trying to analyze them. DRS, Division of Research of the Soviet Area in INR, the Bureau of Intelligence and Research, used to spend a lot of time analyzing the budget and trying to figure how much was actually going into the military. The so-called satellite countries at the time were especially in dire straits, and they of course, were being bled in terms of trade, and they were ruthlessly exploited by the Soviets.

Our relations with the so-called satellites deteriorated steadily. In 1951, the Trade Act took away MFN, most-favored-nation treatment. There was a provision in law which required the President to remove most-favored nation treatment from the USSR and countries controlled or dominated by the country or organization dominating the world communist movement. In a number of cases we had treaties with those countries, providing for MFN treatment and so we had to serve notice to abrogate the agreements. Our economic relations dwindled rapidly. One major issue at the time were the

nationalization claims which resulted from the expropriation of property by the communists in all of the countries and in some cases there were war claims with former enemy states, Hungary and Romania.

Q: Meaning if there was German or Italian money in sort of in escrow that would pay . . .

KATZ: Well, no -- there wasn't. Those countries were held accountable themselves. Hungary and Romania were and Bulgaria were enemy states and so there were claims against them for takings and damage to property of the United States and of American citizens. Of course, there were not a whole lot of American citizens there prewar, but there was some, and there was U.S. Government property. But then there were the nationalization claims and those were rather substantial. I became substantially involved in efforts to resolve these issues.

I also spent a fair amount of time in those early years working on Soviet Lend-Lease negotiations. In fact, that was really my first assignment after my first week there. I was asked to draft a diplomatic note demanding the return of three ice breakers and 27 frigates that we had provided the Russians under Lend-Lease. It was extremely good training in diplomatic correspondence and negotiations.

Q: How did you feel? Was it sort of, well, we've got to do this but we'll never get these back? Was that then the feeling?

KATZ: No, well, in fact, we did get them back. We got the ships back, and the ice breakers were particularly useful. When they were sent to the Russians in 1944-45, they were state-of-the-art craft. They were named after the four winds - East Wind, South Wind, etc. We ultimately got the three ice breakers back, and were used by the Coast Guard for many years thereafter. And while some people questioned why we wanted the frigates back, some of them were actually used in the Korean War. So I thought our efforts were worthwhile.

The financial negotiations went on for decades. We finally got a financial settlement of something like \$300 million, but I had left Soviet Affairs by then and was not involved. But anyway, as I noted, my earlier involvement in the negotiations was valuable training in drafting diplomatic notes, preparing position papers and in participating in the negotiations. After a few years, I was conducting some of the negotiations myself. I remember my counterpart on the other side of the table was Dobrynin, who was then Minister in the Soviet Embassy in Washington. In fact, years later after he became the Ambassador here, and Foreign Minister, when we encountered one another, we would joke and reminisce about those old days of Lend-Lease negotiations.

Q: How did you find; did you learn there was a Soviet style of negotiation?

KATZ: Oh yes. Of course there were a lot of jokes about it. We used to refer to them reading and rereading from their dog-eared files. They would read the same speeches over

and over again. As a matter of fact, after a very short time, about a year of this, I could anticipate exactly what they would say. I sat next to our negotiator, Walt Stoessel was the second negotiator I worked for, and I would listen to the Russian -- I did not speak Russian but I could get enough of it and knew the context of the speech that was coming -- and I would write out some talking points for the response before they were finished on the other side. Walt would use that for his response. In truth there was more speech making than true negotiations.

That was one of the problems. They owed the money and there was a clear obligation on their part, but that didn't cut a whole lot of ice. When the settlement finally came, it was part of a larger package of economic agreements.

Q: We're talking about this early period in the Fifties; how did you feel about the economic reporting from the Soviet Union, particularly?

KATZ: Well, in the early '50s I would say it was reasonably good, but it was beginning to get closed off pretty quickly. It was good in the sense that there was a fairly good idea of what was happening to their industrial production. It was exceptionally good on agricultural production because there was a model that was created by a man named Michaels, I believe, who had been at the Department of Agriculture, but then also CIA, and sort of back and forth. But it was a model that was based on weather -- sun and rainfall essentially -- and acres planted, less harvesting losses. And in fact, I think our crop estimates were probably better than what the Soviets themselves were able to estimate. But of course increasingly as the Iron Curtain descended, it became more and more difficult, so the reporting became more indirect, searching for little clues in newspapers. Of course travel then became restricted and reporting became increasingly difficult.

Q: Was it easier to get information from the satellite countries, or not?

KATZ: Same problems. Official information was sparse and not very accurate. Some of it was designed to withhold information, some of it reflected just the inadequacies of their own statistical services. So it wasn't really very good. In retrospect, we knew that there was an enormous capacity to burden the civilian population at the expense of the military and they were able to build considerable military power, but in the end, what we missed was the permeability of the iron curtain and the inevitability that the economy would crumble. Now that took several decades, but I think one of the lessons is that what was missed. We knew that it was a crumbling economy but we just didn't know how bad it was, and what the level of toleration of the population was. The time of the Hungarian Revolution, for example, 1956, that was something of a revelation, because we had begun to think that as there was generational change there wouldn't be people that had any knowledge of or recollection of, or appreciation of democracy and freedom. But in the Hungarian Revolution it was the young people that led the fight. It wasn't the old folks. And that is what ultimately happened in the Soviet Union itself.

Q: Again and again, you couldn't really indoctrinate a new generation; it didn't work.

KATZ: Well, and it turns out that the iron curtain was much less impermeable than we believed. After the collapse of the Soviet Union you found rock bands in Central Asia. Where did they come from? How did they know about this?

Q: How did you feel the CIA supported you; was there much cooperation at that time, or not?

KATZ: Yes, there was quite a lot of collaboration, and they had a very strong organization on the Soviet economy. I thought at the time they were doing a fairly good job. Now this was mostly through the '50s.

Q: I'd like to stick to the '50s; we can then sort of hit it in decades.

KATZ: I think they portrayed a pretty good picture of what was happening, essentially the capability of the economy to support the armament of the USSR and to some extent the countries of Eastern Europe as well. And despite the iron curtain, I think we knew pretty well what was going on. There was another major activity at that point, and that was what might be called denial, and that was the export control program. And a lot of what the CIA was doing was really providing intelligence to determine where the holes were in the economy and what the Soviets were trying to get their hands on. Now, in retrospect, well I shouldn't say altogether in retrospect - even by the late '50s it was clear to a number of us that the export control program was really excessively restrictive and self-defeating. We were attempting to control things that really didn't make all that much difference. I remember arguments, for example, over petrochemical plants. It was clear that what the Soviets were doing was purchasing technology which was current but would be very quickly obsolete by the time it took to install it. They just were unable to maintain state of the art technology in a whole lot of areas, and the export control program was probably a nuisance, but not a whole lot more than that.

Q: During this period, Yugoslavia took a different turn, and we got involved with that. How did that play?

KATZ: I began working on Yugoslavia in 1951. Of course, Tito broke away from Moscow in 1948-49, but by 1950 there was a major crop failure followed by crop failures in subsequent years, and we became more and more involved in an aid program there.

Because of the significance of Tito's break away from Soviet domination it was important that the Yugoslavian economy be sustained. Yugoslavia was not, however, in the Marshall Plan and we had limited authorized resources available. That led to a Tripartite Aid Program, with the British and French which was maintained for several years. Our contributions consisted primarily of food aid, along with some Export-Import Bank loans. By mid-1951, we had the beginnings of an aid mission in Belgrade and the aid program became more traditional in U.S. terms, with project assistance, commodity support, technical assistance and military assistance as well. Late in the decade, after the

Hungarian Revolution, and the events in Poland in 1956-57, I then took over responsibility for the Yugoslav and Polish aid programs. I was heavily involved in managing those programs. Also I conducted a nationalization claims negotiations with Poland, and pursued a legislative effort to restore most-favored nation treatment to Poland, which became associated with the claims agreement.

Q: In the '50s, with Poland, here you are sitting in the State Department but, you take Chicago. Chicago has got more Poles in it than Warsaw. The Polish influence politically is considerable. Was that a factor in changing things around, from your perspective?

KATZ: There's a very interesting contrast between the Polish and Yugoslav emigrations. The Yugoslav aid program was always controversial. Not so much immediately because Tito's defection was a major event, a stunning event and extremely important, and what people hoped would be the beginning of the end of the Communist bloc. Ultimately it was, but it took a long time. The Yugoslav emigre community, however, was very fractured. That would not seem very surprising now, but there was still bitter enmity between the Serbs and Croats going back to World War II. It was primarily the Croatian community that was extremely hostile to any aid to the Communist Tito.

Q: Concentrated in Chicago, Cleveland, Pittsburgh . . .

KATZ: On the other hand, there was no great division of opinion among the Polish community in the U.S. After 1956, Gomulka came in and introduced some changes in Poland, there was a great deal of support for aid to Poland. In fact, Poland began to open up, and there was a lot of travel back and forth. But there had always been a substantial level of financial remittances to Poland, and I suppose to Yugoslavia as well. In fact, to all of the Eastern European countries. Indeed, there were a number of people living there, in all of the countries, but especially Poland, who were retirees from the United States, and getting U.S. government checks.

Q: I know, I was Consul in Belgrade from 1962-67, and my main job was going out and making sure that people were getting their social security, railroad pensions, veterans' checks - a big source of income at that time. What was your impression of how aid was working? You're looking at this as an economic person rather than just sort of an AID person where they get concentrated on projects. How did you feel? Did you have to be careful about Poland, that we were giving aid, but after all it was part of the Soviet military force at the time?

KATZ: Well, I don't think there was much concern about diversion. There were concerns, of course, as to whether it was being used effectively. In terms of getting to people, I think it was. I think people benefitted from it. But was it economically sound, that is, were they engaged in projects that made sense for the country? And, of course, there was always the concern whether the money would be repaid. I think most of the loans are being repaid, although there have been several reshedulings, or stretch outs of payments. Yugoslavia, in particular, took on a lot of debt and I was involved in one of the early debt

rescheduling efforts in 1959. I went to Europe with Douglas Dillon to persuade European countries to reschedule debt with Yugoslavia.

In the case of Poland, much of what we did was PL 480, mainly sales of grain for local currency. And that generated a great deal of local currency. The arrangement was that we were paid in Polish Zloty and then we had to figure out what to do with that. Some of it was programmed back into aid projects. One project I was involved in was the building of a children's hospital. A Polish emigre here took that on as a life's work, and got a lot of support from Congress. Congressman Zablocki, who was Chairman of the Foreign Affairs Committee, Senator Hubert Humphrey, and others. Ultimately the hospital was built, largely with local currency funds, plus private dollar contributions from the U.S.

Q: In Yugoslavia, what was your impression of how our aid functioned there? Was it pretty well invested?

KATZ: There was a lot of concern that, first of all, the agricultural commodities provided had the effect enabling the Yugoslavs to pursue bad agricultural policy, that is, maintaining collective farms, not providing adequate prices to farmers so as to provide domestic incentives to grow their own food. And in fact, I think there was probably some justification for that because as food aid began to be tapered down, they did become more self-sufficient. The other aid we provided was balance of payments support primarily in the form of commodities, plus project loans via the Export-Import Bank. There was a little bit of Marshall Plan money, but the greatest part of our aid, other than agriculture, was military aid, and we provided quite a lot of military equipment. In fact, some of the proceeds of our agricultural sales, the local currency component of our agricultural sales, went into military projects. Some were dual-use, like building the Adriatic Highway.

Q: And quite a bit of railroad equipment, if I recall.

KATZ: That probably came out of the early Ex-Im loans. I think all of that did ultimately help to erode the communist system. Of course, the Yugoslavs adopted their peculiar brand of socialism, with some success stories, and many more failures. But, I think it helped to erode the communist ideology, not only in Yugoslavia, but elsewhere. Whether the aid was effective in economic terms, is I think arguable. But recall that the basic purpose was to support Tito, or as a British colleague put it. "to keep the bloody bastard afloat".

Q: In Poland how did you see the Polish economy at the time?

KATZ: Oh, it was always very creaky and always in serious straits.

Q: Did Hungary and Romania play much of a role, or where were they kind of off to?

KATZ: Similarly, they were struggling, with badly functioning economies. In 1956, just before, well almost at the same time as the outbreak of the Hungarian Revolution . . .

Q: Which I think is in October 1956.

KATZ: Yes, on October 8, 1956 I went to Romania to lead a delegation to discuss for the first time following World War II a whole series of bilateral issues. The Romanians were just beginning to try to emerge from under the domination of the Soviets. It was a day or two after my arrival in Bucharest that the revolution broke out in Hungary. Of course, at the same time things were erupting in Poland as well. It was a rather exciting time to be there.

I was there for three weeks discussing economic, financial and consular problems. All of the borders were closed and we were quite cut off from the outside world, except for BBC, which we listened to avidly. After our talks had concluded, we even had trouble getting out of there because of the closed borders. Ultimately, they put on a special flight so that we and other travelers could get out through Czechoslovakia. But it was clear that there was a great deal of ferment in the area.

Q: The Romanians, did you sense on the part of the people you were negotiating or in contact with that they were wondering what was going to happen in their country?

KATZ: Oh yes, they were clearly very preoccupied. But at the time Romania was a pitifully poor country. Walking down the streets was depressing. There were no goods in the shops. The people just looked sad, spiritless. But there were people in the government who were beginning to look for an opening. These talks were really initiated by them and they were clearly looking for some kind of relationship with the United States.

Q: Did you have any dealings with Czechoslovakia?

KATZ: Yes, primarily financial negotiations. And in fact, we stopped there briefly on the way back, well really to transit. But there had been negotiations going on there. There was a major incentive on the part of the Czechs to reach agreement with us. We had ended up being custodians of, together with the British and French, of a large stock of gold, which had been looted by the Nazis, that could not be released without our agreement. Notwithstanding that, the Czechs were not very ready to come to an agreement, which turned out to be to their ultimate advantage, because the price of gold went from \$35.00 to hundreds of dollars subsequently. In time, we did conclude an agreement, and then it got held up here because one of the claimants, the Aris glove family, got to Senator Long of Louisiana, who was Chairman of the Finance Committee. And he held up the agreement. So it was some years after I had left Eastern European Affairs that the agreement was finally concluded and the gold returned. Probably wasn't until the 1980s that was finally done.

Q: Then they did come out ahead. Did you find in our dealings with Eastern Europe how did we work with say, the French and the British. They were our major allies there. Did you find there was disagreement on the economic interpretation or in negotiating...

KATZ: Well, we worked very closely with them. In the first days, not in the earliest days of Tito's break, but by 1950 the aid program, as I said, was a tripartite aid program, with contributions from the British and the French. Our share was much larger than theirs, but they did play a role. The French dropped out pretty quickly, and the British contribution was dwindling primarily because of their own financial problems. And so ultimately it became a U.S. program. But there were other areas of cooperation. For example, there was the COCOM operation, which dealt with export controls. There was close cooperation, but at the same time a lot of disagreement. The U.S. always tended to want to do more than our allies; either we were more restrictive or more generous, for example with regard to aid programs. We tended toward some excess, with the others being more reserved.

Q: On another subject, but I want to stay with the '50s still. You were in the Department. Did you feel the heavy hand of McCarthyism or any reflection of that on others?

KATZ: Not personally, but I do recall that in the early '50s there was an atmosphere that was quite uncomfortable, particularly in '51 and '52. I remember one person who resigned from the Bureau under pressure and that was kind of an unsettling experience. And then at the end of the Truman administration, when Dean Acheson, Secretary Acheson, gave a farewell speech on the back steps of the old State Department building, that was kind of a moving experience. He turned it into a tribute to all of the employees of the Department. And then several days later, the new Secretary, John Foster Dulles, appeared on the same spot, addressing the same group of people, saying that from now on we are going to demand positive loyalty. And so that was an unhappy time.

Q: I can't tell you how many times that positive loyalty thing and that contrast between those two things have come up with people who served in Washington at that time.

KATZ: I remember it vividly. Apart from that, I had no personal involvement. It was environmental, not something that affected me directly. And there was at the time a reduction in force, which came in 1953, which was also somewhat unsettling. It did not personally affect me, but affected other people, and I began to wonder whether I wanted to stay. In fact, I had initially come into the State Department not thinking about it as a career. I thought it was something I would want to do for several years and gain some experience, and then go on to do something else. After 25 years I finally decided that I probably had inadvertently committed myself to a career. But I never really felt that I was part of the system.

Q: I must say, we're talking about the '50s, your coming in then, that you certainly were leading delegations, doing this sort of thing or even being number two in the delegation; you were finding yourself with much more authority than you would have if you had been a foreign service officer.

KATZ: Yes, absolutely. And I think in part it was because I was an economic officer in a political bureau. There were many opportunities; all through my career I just happened to

be where the action was. I thought often of the Chinese curse "may you live in interesting times". Within two weeks after I joined the Department, I was on a delegation which at the time was the one of the few things that was going on with the Soviet Union, which was the Lend-Lease negotiations. I found myself in financial negotiations, which provided a lot of good experience; a lot of frustration but good experience in aid programs, first in Yugoslavia, then with Poland, with provided opportunities for economic analysis, and again with negotiations. A lot of experience with legislation and dealing with the Congress, which again involved fascinating experiences but also were good learning experiences. So I was very fortunate. It was one of the reasons I found it difficult to tear myself away. I greatly enjoyed what I was doing.

Q: Talking about Congress, were there any either incidents or congress people who particularly stick in you mind vis some vis being interesting, difficult, fun, what have you?

KATZ: Yes, especially Wilbur Mills. He was Chairman of the House Committee on Ways and Means. He was an absolutely fascinating figure, and I spent a lot of time with him. He kind of adopted me. I also spent a lot of time with Senator Long and was one of the few people in the State Department who could get along with him. He used to say to me "Julius, you are a statesman, but you are wrong." Senator Long was not known as an internationalist. Most of this took place in the '60s and '70s.

Q: I'd rather save that and stick to this, and then come into the '60s and '70s shortly. During the '50s period, were there any people in the State Department who either served as mentors or bete noires, or just characters, that you can think of?

KATZ: Well, of course there were a great many, but my first mentor was my first boss, George Truesdell, who was the Officer in Charge of Economic Affairs in the Office of Eastern European Affairs. What I gained from him - I think there were a lot of character building lessons that I learned from him. He was a very straitlaced person, and a lot of that stuck with me. People like Harold Vedeler, who was in the office for a long time, and ultimately became Office Director and who taught me a lot.

Q: Do you know where he lives?

KATZ: I believe he lives in Alexandria, but he would be well along in years. I thought he had moved to Richmond, but I know that Harold had done some writing. People like Freddy Reinhardt, who was a Director was someone I admired. Of course I had, not close relationships, but brushes with people like Chip Bohlen, and Tommy Thompson, legendary figures in Soviet Affairs. George Kennan also, but that comes in the next decade, during your tenure in Yugoslavia.

Q: Yes, he was my Ambassador for a while in Yugoslavia. I find this a very interesting period. But, still at this time, were you having people come up to you, experienced foreign service officers, and put their hand on your shoulder, and say "Jules, you just don't

understand these people" and try to explain sort of the cultural reason why you are getting this? Were you finding frustration? Sometimes this happens.

KATZ: I don't recall anything quite like that. Of course, I was a little feisty and there were some steady hands. I recall the first draft I did of a document, which was a diplomatic note, and a fellow in the office named Clarence Nichols, who said, "Well, this is a pretty good job, but what I would do is take this paragraph and move it here and this paragraph and move it here, and take out these words..." and in the end, what I had written was barely recognizable, but he said, "Well, this is really a very good job." So I learned a lot about drafting in those days. But I don't recall anything quite like what you suggest.

Q: Is there anything else during the '50s that you can think about that I may have missed? How about Treasury? As far as you were concerned, was Treasury much of a player at that time?

KATZ: Not so much in the '50s. They did play some role with respect to the Yugoslav aid program, but the important interagency relationships were with the Departments of Agriculture on PL 480, with Commerce on export controls, and with the Defense Department, particularly on the getting the Lend Lease ships back from the Soviets. Of course there was the aid organization, known as the Economic Cooperation Agency, the ECA which until 1962 was independent of the State Department.

Q: How about Commerce? Was Commerce a problem or not? I came in the Foreign Service in '55, and Commerce was considered to be a rather stodgy, not terribly competent outfit.

KATZ: Commerce has had a very much up and down history, but our primary involvement in those days was on export controls, and there they had people who were certainly technically competent. The government was really quite different in those days. It was smaller, obviously, but the White House didn't play that much of a role in the way it does now. The White House was a smaller organization, the NSC was not as large; you didn't have the economic coordination to the same extent as today or in after the 1970's.

There was the Psychology Strategy Board (or something like that) in the Eisenhower Administration, which was in the Executive Office. It was, however, what the name implied, a kind of propaganda operation. And while it did touch on some of my work, it was eminently forgettable.

Q: We'll move to the '60s. In the first place, did you feel any change when the Kennedy administration came in, about the thrust of things? Did you still have the same sort of responsibilities then?

KATZ: Yes, I took over the Polish and Yugoslav aid programs in '59, and then the Kennedy Administration took office in 1961. That was a rather exciting time, because there was a kind of new air, a new vitality, and new young president. The '50s of course had been a period of consolidation in many ways. Kennedy was just a very exciting figure,

and had made some speeches about Eastern Europe, and what was going to happen in respect to our policy toward the region. In fact, he gave a speech in Buffalo to a Polish community (it was said that there were more Poles in Buffalo than there were in Warsaw).

There's one little interesting anecdote, I would recall. At the end of the Eisenhower administration, we had committed ourselves to grant an Export-Import Bank loan to Poland, and it required a Presidential Determination under the law, because Poland was a communist country. I tried to move this piece of paper to the President, and it kept getting delayed because of the claims settlement and other issues. It came down to the last few weeks, and I was just having trouble getting clearances on this document. It finally came down to the last week, and it looked pretty hopeless. The Administration was going out of office, but I was just determined to get this Determination done, and clear the deck, because it really was a commitment of the Eisenhower administration and I thought that to have to start this all over again with the new Administration it would be weeks and months of further delay. I kept persisting, and then finally I got my last clearance from the Defense Department, as it turned out, on January 19th. And so I had to get it to the Bureau of the Budget and get them to finally chop on it, get it to the Secretary of State, and then forward it to the White House. And everybody kept saying "you're crazy, no one is going to do this on the last day of the Administration."

It turns out, you may remember, that we had a monumental snow storm that day, and at about sometime around midday I grabbed someone in the office and I said, "We just got this paper back from the Defense Department. Come with me." I got Charlie Eulis, who worked for me, and I said, "Look, I'm going to get my car out of the garage, and I'm going to drive by the Old Executive Office Building. You run in and get the chop on this paper and I'll wait for you." Well, I got about half a block from the State Department, and traffic was just blocked every which way. He said "I'll start out on foot, and you catch up with me." There was no way I could get there, and so consequently I managed to get the car out of the snow drift and back into the basement of the State Department building. Several hours later old Charlie Eulis turns up with icicles on his face, but with the document. And I sent it up to the Secretary's office, not knowing what he was going to do with it, but thinking, "Well, I've done all I can."

At about six o'clock that evening I got a call from the Secretary's office, Secretary Herter, asking me to come up there. "And what is this all about?" He said, "Are you serious?" I said, "Yes sir. It was a commitment we had made and was linked to these other agreements we had concluded, and I thought we had an obligation to see it through." And he said "Well, the President will have a final signing period at 11 o'clock tomorrow morning on the 20th, and I'll send it over there. But I'm going to pen a note on it to condition the determination on review by the incoming Administration." I said "Thank you sir. I think that is entirely reasonable." At 11:30 the next morning I got a telephone call saying "Congratulations, the President signed the Determination."

That may well have been the last official document that President Eisenhower signed. And what happened subsequently is that before it could really be reviewed or approved by President Kennedy, the Bay of Pigs invasion occurred, the Poles denounced the Americans, and the loan never went through. It was all in vain, but anyway, I gave it my best shot.

Q: That snow storm was something and ranks with the great snow storms, particularly right on Inauguration Day. Was there a change in your job in this early Kennedy period?

KATZ: Yes, well, it became more active, because the interest in Eastern Europe, but the Bay of Pigs invasion was kind of an upsetting event and slowed things down.

Q: This was the invasion of Cuba by forces supported by us, which was abortive and very both messy and embarrassing.

KATZ: And then the other thing that began to happen was of course George Kennan went to Yugoslavia as Ambassador, and that was a rather exciting experience for me. First of all getting to work with George Kennan, but the reason I began to work with him very closely was that in 1962 the Congress passed the Trade Expansion Act, which gave rise to the Kennedy Round of trade negotiations. But there was a provision in there requiring the withdrawal of most favored treatment from Poland and Yugoslavia as soon as practicable. That was in part because Wilbur Mills, for some reason that I never really learned, thought that we had restored most favored nation treatment to Poland in 1959 in violation of the law.

The law quite clearly said that it required denial of most favored nation treatment from countries controlled or dominated by the country or organization controlling the world communist movement. We made a determination that Poland was not controlled. Wilbur Mills, for some reason, got it into his head that was something we shouldn't have done, although we had consulted with him, and informed him that we were going to do that. Then began a period of some duration where we were under a mandate to withdraw as soon as was practicable, but we did not find it practical, and George Kennan became very much involved in this and came back home frequently to lobby against this. At that time I didn't know Wilbur Mills at all. I had met him, but certainly did not know him well. Kennan, of course, was terribly upset by this, he treated it as a personal affront.

Ultimately we got the provision of law reversed. We never did withdraw the MFN treatment. But at the same time, Tito resumed some kind of relationship with the Russians, and that led to a major review of our Yugoslav policy. Kennan was sometimes on one side and sometimes on another with respect to what Tito was up to. Tito, I believe, went to Moscow in 1963, I believe, and Kennan was greatly offended that Tito did not confide in him on the content of his discussions in Moscow. I became very much involved in this policy review and there was a brief period -- I can't remember exactly how long it lasted -- when I was serving as Yugoslav Desk Officer, as well as doing the economic job. And as I said, I had a lot of contact with Kennan in that period.

Q: What was your impression of Kennan?

KATZ: Well, I thought he was a fascinating person. He was incredibly articulate. But I thought he was also very emotional, and he could impress not only others with his writing, but himself. He would sometimes get an idea and build on it, and it would become larger than life. I thought his analysis was sometimes clouded by emotion and sometimes it was personal, for example his tendency to regard disagreements as personal affronts. Overall, I think he was a person of great insights and certainly a great historical perspective.

Q: I was again, off to one side, I was one what everyone called a country team, but as chief of the consular section at the time, and the way I was getting from my friends who were sort of in the political and economic sections was really what you were saying, that this was some raw meat that had to be tossed to the conservatives in Congress and it wasn't going anywhere because a notice would be given and nothing would happen. I didn't know the technicalities, but basically this was almost a non issue but in order to get the greater good, and that Kennan was talking about, it seemed as though he was advocating that Kennedy should get on a train, and a la Wilson go and speak around the country on this issue, and it was taken very personally by Kennan. One of the things that struck me, and struck others, was that Kennan didn't really understand the American political process. It always made me feel that he was probably a great historian, and maybe not a very good ambassador.

KATZ: I think there's a lot to that. This issue with Wilbur Mills was a very peculiar one, because I don't think there was whole lot of support for his position. It was something that Mills himself didn't understand. There must have been some stimulus, but I don't know what that was.

Q: Mills did come from Ohio, didn't he?

KATZ: No. He came from Arkansas.

Q: Oh that right; so he wouldn't have been up against the immigrant pressures.

KATZ: No, but that could have happened. But it wasn't just Yugoslavia, it was Yugoslavia and Poland. It was a strange thing. And when Kennan came back, clearly it wasn't going to change unless Wilbur Mills was persuaded. It was not a matter of getting great support. Kennedy, of course, signed the Trade Expansion Act because it was so overwhelmingly important and this was a relatively small provision, and the notion was, well, this would get changed. We would have to get this amended, and ultimately we did. I don't really remember how that came about, but ultimately we did get an amendment, and it just went through, and it wasn't any problem.

Another example, of Kennan's thinking process was the incident I mentioned of Tito's trip to Moscow in 1963, I think it was. I remember a series of messages from Kennan saying first, that we really had nothing to worry about. Tito certainly would not betray us by

some new agreement with the Russians. And then Tito returned and Kennan wrote "Well, I haven't heard from Tito, but I'm still pretty confident that nothing happened." Then the next day a message came in saying "Well I still haven't heard from Tito, and I wonder what he's up to, I wonder what he did there." And then after another message or two he said, "Well, obviously Tito was up to no good. He must have stabbed us in the back." And all of these conflicting arguments were written with passion and persuasion.

Q: Did anything happen with Poland during this Kennedy period, because Kennedy was even closer to Poland in a way, he was much more attuned, you might say, to them, being a Democrat, but also his politics, and all that.

KATZ: Well, not a whole lot happened in '61. The President, of course took office in '61. Much of the focus was on this Yugoslav problem. I don't recall anything particularly startling with Poland, except there were some rough spots, particularly coming out of the Bay of Pigs and harsh, condemnatory rhetoric from Poland. There were a number of points in Kennedy's Buffalo speech, which promised actions. although I have to confess I don't remember the particulars. But I do recall a conversation sometime in '62, probably around October of '62, it was kind of leading up to the congressional elections, and I got a call from Mike Feldman, who was then Counselor to President Kennedy at the White House, recalling the speech. It had in it something like a 7 point program. Kennedy was fond of in his speeches of having six points, seven points, nine points. Feldman said, "I'd like to review what's happened, and what have we accomplished with respect to this Eastern European speech." And I recall making a rather sour response. I said, "Well, in fact, we've done almost nothing." "Why is that?" he said. I then went down point by point, indicating where we had been frustrated by lack of Administration follow through. I do not think he was very happy with me. What had happened was that there were other preoccupations and other complications and so that the relationship with Eastern Europe didn't develop quite as had been forecast in the speech. And as I say, our relations with Poland had also soured a bit.

Q: Of course, it was the Berlin Wall period too. And it was the whole Berlin situation, where we were; I mean Khrushchev was really testing out; I mean he'd found Kennedy to be; he assumed Kennedy to be very weak and was pushing him and so this turned things into much more of a military "us and them" as opposed to a time of opening up and all that.

KATZ: And there was no great rush of support from Eastern European countries to the U.S. at that point, so there was certainly a cooling of relationships. There was nothing really going on with Hungary or Poland, that I can recall in that period of time. In fact, I then began to think that it was time to do something else, that I had really been in Eastern European Affairs much longer than I had intended. I'd been there 13 years.

Q: That's a long time.

KATZ: So what I had arranged to do was to go to the Senior Seminar, as a way of disengaging for a year.

Q: This is the State Department equivalent to War College. I had a year of it; a very good year.

KATZ: Well, I found that very appealing, the year off, but also the experience, particularly since the Senior Seminar spent a lot of time on the domestic economy and domestic political and social events, which I had become pretty ignorant of. I knew a lot more about Eastern Europe than I did about the middle of the United States. So I was scheduled to go into the Senior Seminar in 1963, and some weeks before my departure, I got a call from George Springsteen, who was a Special Assistant to Under Secretary George Ball saying "Mr. Ball would like you to go to the Economic Bureau and become Deputy Director of the Office of International Trade." And I said, "Well, I really am looking forward to this experience of the Senior Seminar." He said, "Well, we can't really afford that; we have to have you move over."

I later learned that one of the reasons this came about was that the request had really come from the Economic Bureau, and particularly from Phil Trezise, who was the Deputy Assistant Secretary at the time. I had an experience with him in Secretary Rusk's office. There was an export license application to permit the export of technology on locomotives that were being sold by a British company to Czechoslovakia. And the Commerce Department, or the interagency group ruled that we couldn't let locomotives go to Czechoslovakia. Since we controlled the technology, we could prevent the sale. And so the issue finally got escalated up to the Secretary's office and we met with Secretary Rusk. He was clearly not very enthusiastic about making this decision. And he grumbled, "Well, I don't see why we should do anything for the Czechs." And I said, "Well, Mr. Secretary, I don't think we're doing it for the Czechs, I think first of all, there is a sale by the U.S., a benefit to the U.S., and then of course it's the British who are actually going to sell the equipment." "Well, I don't see why we should do anything for the British either."

Phil told me later that he thought that, "When you stood up to the Secretary that way, I thought we had to get you into the Bureau." I didn't know that was the reason at the time, but, anyway, with Under Secretary Ball making this request, I thought I couldn't turn it down, so I took a month off, and reported to the Economic Bureau, and became Deputy Director of the Office of International Trade.

You had asked earlier who were my mentors and Phil Trezise was certainly one of them. He taught me a lot about the policy process, particularly the interagency process, how to manage it. Phil also helped shape my philosophy toward free trade and minimal government regulation, long before it became politically correct.

Q: Who was the head of the Economic Bureau at the time?

KATZ: The Assistant Secretary was Griffith Johnson, Phil Trezise was the Senior Deputy. Michael Blumenthal was another Deputy, although he was about to leave there to become the Deputy U.S. Trade Representative, or Deputy Special Trade Representative, as it was known at the time. Christian Herter had become the Special Trade Representative or STR, and Blumenthal became one of his deputies, and went to Geneva. Blumenthal was to go to become the CEO of the Bendix Corporation, Treasury Secretary in the Carter Administration and CEO of the Unisys company.

The reason they asked me to come over to the E Bureau was that the Kennedy Round was about to start at that time. It was a big multilateral trade negotiation. I had some prior contact with Mike Blumenthal on the Polish issue. And of course, over the years through the '50s and early '60s, I'd had contact with the Economic Bureau on specific trade issues. There were export control issues, anti-dumping cases, and some of the financial claims issues on which I had worked with the Trade Office and the Office of Monetary Affairs. There were other trade issues such as the most favored nation treatment issue, which involved a lot of contact with the E Bureau.

Q: How did you feel about relative power of the European Bureau and Economic Bureau? The European Bureau being the most significant bureau, I suppose, in the geographic sense, particularly at that time?

KATZ: Well, EUR was always a very strong bureau. The Economic Bureau, was equally strong in personnel. In the nature of things, economics in the State Department always took second place to the geographic bureaus. My own relations with the E Bureau were cooperative and we were mutually supporting. After I came into the Economic Bureau there were issues on trade where they put us at cross-purposes with EUR, particularly on things involving the European Common Market, and especially as we got into the Kennedy Round negotiations, there were a number of conflicts. As the years wore on, I found that I had a lot more contact with other Cabinet Officers than I did with the Secretary of State, and of course that was a source of power, which I could play back in the Department. But EUR always remained a very strong bureau.

Q: We'll stop at this point, and then I'd like to ask what your specific responsibilities were at the Office of International Trade, and also to explain the background about the Kennedy Round Negotiations. You had mentioned that there were problems with the European Community negotiations. We'll talk about that.

* * * *

Today is June 2, 1995. You wanted to talk about the background of the Kennedy Round.

KATZ: Yes. At the time, one of the major economic issues was economic integration in Europe and the advent of the European Common Market among the six original countries in Europe. This raised serious questions about the impact on other countries in Western Europe, particularly Britain, but also the Scandinavians, Austria and Switzerland that had organized themselves into the EFTA, the European Free Trade Agreement.

One of the main differences between the two groups had to do with agriculture. Agriculture was the issue that was sometimes spoken of as the cement that held the Common Market together, and the EFTA countries were not prepared to include agriculture in their free trade arrangement. There were other issues as well. The difference between a common market and a free trade area is that in a common market there are no barriers among the members and a harmonized common tariff against the rest of the world. In the case of free trade area, each member maintains their own tariff against the rest of the world, while tariffs are eliminated on trade within the area.

A common market requires a greater surrender of sovereignty, since the interests of individual members must be subordinated to the interests of the group. In the case of the Europeans, the EFTA countries were unwilling to submit themselves to the commercial, and especially the agricultural policies of the Common Market. The problem with all of this was that the EFTA countries would face serious discrimination in the Common Market. In the United States, as well there was concern that the Common Market would result in discrimination against U.S. goods.

So one of the things that was going on was an attempt by the Brits to negotiate their own entry into the Common Market, which was to fail in the first time around. Another approach initiated by the U.S. was to arrange for a big negotiation which would bring down the tariffs substantially by all countries, not only those in Europe, but the other members of GATT as well. So, the Kennedy administration went to the Congress with a fairly bold proposal to obtain authority to reduce tariffs by 50 percent. And that was the beginning of the Kennedy Round.

Q: You mentioned the division of Europe into the EFTA and the Common Market. Which were the countries in each?

KATZ: The Common Market, of course, was France, Germany, the three Benelux countries, and Italy. Those were the six. The EFTA countries were the seven; at the time we spoke of the sixes and the sevens, that Europe at sixes and sevens. The EFTA was made up of Britain, Norway, Denmark, Sweden, Austria, Finland and Switzerland. Spain and Portugal were outside both groups, since they still had fascist governments.

Q: Did the State Department and your office have any influence as this Kennedy Round proposal came up? Where did this come from?

KATZ: Oh, it really came from the State Department. Now that actually preceded my move over to the Office of Trade, but it was largely led by George Ball, who was then Under Secretary for Economic Affairs. He later became The Under Secretary, the position that subsequently became Deputy Secretary. The Office of Trade, which incidentally was at the time the largest office in the State Department and was strong in quality as well as in numbers. The Office and the Deputies in the Bureau, Phil Trezise and Mike

Blumenthal were importantly involved in the legislation and the beginnings of the Kennedy Round negotiations.

Q: When you moved over to this Bureau, what did you and the people you were working with see as the greatest stumbling blocks? Was it going to be domestic or was it going to be particular countries, or what?

KATZ: When I first came over, I was a bit of a novice, even though I moved in as Deputy Director. I had come from a very different milieu. Eastern Europe, with mostly bilateral relations was very different. And although I'd had some involvement in trade policy issues, such as the MFN issues and anti-dumping problems, a lot of what I had worked on were financial negotiations and aid programs. So, as I say, I was the new boy on the block, but not with a whole lot of experience in trade policy lore. I knew something about the laws, but the operations and philosophy was somewhat new to me.

What I became involved in initially was not so much the Kennedy Round as GATT issues, that is, the other part of trade policy, not the big negotiation, but normal GATT business. And I attended meetings of the Contracting Parties, which was an annual meeting at which a whole lot of ordinary business of the GATT was taken up. I also became involved in the negotiation of a new chapter of the GATT, Chapter Four, which was intended to deal with the burgeoning demands of developing countries to tilt the playing field in their favor. And that was a big and very contentious issue.

I also became involved after a while with the issue of non-tariff barriers in the Kennedy Round negotiations, and that was the first time to any significant degree, that there was focus on other than tariff barriers. The stuff of previous negotiations was reducing tariffs. But the question of how do you deal reciprocally with issues which are not quantifiable. The tariff negotiations could always be reduced to a dollar volume, and you could at least argue that you were reducing hundred of millions or billions of dollars worth of your trade versus similar amounts by your trading partners. But in non-tariff barriers, you were dealing with issues which were non-quantifiable for the most part. Also, they were much more difficult because they were rooted in laws and sometimes ancient practices with strongly entrenched private interests. So that was a novel issue in trade policy, and in fact it was handled in a rather clumsy way, through the negotiation.

In the end when we completed the negotiations and arrived at an agreement, there were some issues that were not able to get through the Congress. Traditionally in these negotiations the Congress provided a prior grant of authority to the President. The President was authorized to reduce tariffs by X percent, in this case, 50 percent, with some guidelines having to do sometimes with sensitive areas. But he was then able to enter into agreements to bring about that result and to proclaim the results thereof - in other words, he had authority to negotiate and then actually execute the agreement. In the case of non-tariff barriers, there was no prior grant of authority. So we had to go back to the Congress, and in two instances, the Congress said no. And here we were having reached an agreement, and we had to go back and, in effect, renegotiate.

Q: What were the issues?

KATZ: One was anti-dumping, which has been an extremely difficult issue to this very day. In fact it has gotten worse and worse. And the other issue was a quaint practice known as wine gallon assessment. We assessed duty and taxes on whisky not by alcoholic content, but by volume, so that it was cheaper to bring in alcohol in bulk at 200 proof, and then cut it with New Jersey swamp water. The British, in particular, claimed discrimination. What was happening was Scotch Whiskey was being brought over and being bottled in New Jersey instead of in Scotland with water that was supposed to be processed through the heather and the peat, and all that.

We agreed to change it, and went back to the Congress and there was a Congressman Watt from Kentucky, who said he had only three interests in life: horses, women, and whiskey. And he said no. He was a senior member of the Ways and Means Committee, so that got scuttled.

Q: Was that taken care of at some later date?

KATZ: It was taken care of in a subsequent negotiation.

Q: After Mr. Watt passed to his reward? Sounds pretty good to me. Were we coming up against the Japanese and that whole thing that we are still wrestling with?

KATZ: No, the big problem in the negotiations, the really contentious issues were with Europe, then as now. Well, there were two big issues. The biggest issue was agriculture. The European Community was just beginning their common agricultural policy, the CAP, and as I say, some argued, particularly the French, that agriculture was the cement that held the community together. But they were beginning to turn very protectionist, and using more and more subsidies.

One of the most intractable issues was that of the variable levy. The way the variable levy worked was to establish a domestic reference price and then the import duty would equate the difference between the world price and their internal price. In effect, it resulted in infinite protection. And then to make matters worse they took the proceeds from their import taxes and used those to subsidize exports. The variable levy was an infernal machine, as far as we were concerned. That was a very big issue.

The other issue which delayed the start of the negotiations for almost three years was the negotiating plan. We proposed, that contrary to previous negotiations, we didn't think it was efficient to negotiate item by item. Rather we proposed to use what we called linear cuts, that is 50 percent cuts in tariffs across the board, some with exceptions. The Europeans, on the other hand advocated something they called ecretement, which involved larger cuts for higher duties. They argued out that the profile of their tariff was

rather flat whereas our's had peaks and valleys. So they wanted to knock off those peaks. And that issue detained us, as I said, for almost three years.

Interestingly, that was again an issue in the Uruguay Round negotiations as was the question of linear cuts versus item by item, except that the roles became reversed and the U.S. was insisting on item by item negotiations.

Q: Why was our tariff profile different?

KATZ: Oh, it was that way for historical reasons. Of course, we started out in 1930 with the Smoot-Hawley Tariffs, so we had an extremely high tariff, and then we began to cut it through reciprocal trade negotiations, but the tough items always stayed high. So, for example, things like textiles and shoes, and so-called sensitive import items just stayed at very high levels.

Q: A sensitive import item is...

KATZ: One that is politically sensitive.

Q: Rather than militarily, or something else.

KATZ: Well, there are also security items. I mean, we always argued, for example, that oil was a security item, particularly after 1959 when we introduced the oil import program. But it really came down to political sensitivity. For a long time we wouldn't cut the duty on brooms made of broom corn, because allegedly they were produced by blind people. It turns out there were a couple hundred blind people producing these; maybe 2,500 workers in the whole country and we wouldn't cut the duty on brooms made of broom corn, even after we no longer produced broom corn and had to import it.

Q: In this time, during the Kennedy Round, did the various delegations see tariffs as a money raising thing, as opposed to a protectionist type of thing?

KATZ: Some countries had that problem, but generally tariffs were not considered a good way of raising a lot of money. It's not generally source of government revenue, although interestingly, that has now become a problem for the U.S. because of our budget law, the so-called pay as you go requirement. Now when we reduce duties and lose revenue, we have to make it up some other way. Reducing tariffs actually increases revenue, because of the growth stimulus. But under the law the revenue effect is measured statically, rather than dynamically.

Q: For this Kennedy Round when you were involved in it was from when to when about?

KATZ: Well, the Trade Expansion Act was 1962, the negotiations started in '63, which is about the time that I came into it. And they went until 1968. There was and is an invariable rule of international trade negotiations, and that is they expand to fill the time made available by the U.S. Congress. We had a five year negotiating authority, which

ended in June 1968. So that was the absolute deadline for the negotiations. Without the U.S. there wasn't going to be a negotiation, we were the driving force.

There is one other issue that I should mention in this connection, which also delayed the negotiations in time. And that is we had a furious battle with the Europeans over something that came to be called the Chicken War. And that came about because of the common agricultural policy. We had a very large market for frozen chicken in Europe, because we began after World War II producing chickens in factories, as you know, with assembly line technique; feed them, slaughter them, cut them up, and freeze them and export them. But by the '60s this technology began to be exported along with the feed. We also had a very large market for feed. And Europe, using their variable levy, taxed the imports, in effect cut off the imports, but then began to export them with export subsidies. We ultimately brought a case against the Europeans in the GATT, under dispute settlement. I guess we threatened to bring the case, but ultimately what happened was the Executive Secretary, as he was then known, Wyndham White, brought the parties together and had a panel examine the issue and render a judgement.

Q: This was the Executive Secretary of the GATT?

KATZ: Yes. He was a legendary character. He was a Third Secretary in the British Foreign Service on leave to the GATT. He never advanced beyond that grade since he never went back to the British Foreign Service, but as I say, he became a legendary character. He was in the GATT from 1946 to 1970 or so. But anyway, he persuaded the parties to, in effect, arbitrate the issue, or at least arbitrate the amount of damage. We argued that our tariff concession on chickens had been impaired by the European practice. That was upheld, and then there was the question of what was the amount of compensation that we were due. It was finally determined to be \$28 million, but instead of negotiating compensation, we raised duties on European products, and that included, importantly, trucks, French brandy, Dutch cornstarch, and some other items. The interesting item was trucks. We raised the duty to 25 percent, and we did that because Volkswagen was beginning to send their panel trucks into the U.S. in some quantity, and we thought well, here is a way to really put some hurt on the Germans.

What happened subsequently is that since they couldn't come in as trucks, they came in as passenger vans, and the seats would be unbolted, shipped back to Germany, and then the next batch of passenger vans would come in, and they would end up being trucks. But that then gave rise to the idea of the van. Why not leave the seats in there, it's not a bad idea, which is the origin of the mini-van. An example of a distorting effect of trade policy.

Q: I wonder if you could characterize from your experience, as we are talking of this time in the mid '60s, of the negotiating and the outlook of some of the various countries, including the United States.

KATZ: As I say, we were largely driven by the notion that it was desirable to bring down protection, bring down duties. The word free trade really hadn't permeated the lexicon

and in fact it was a somewhat politically incorrect term with some people in the Congress and was avoided. But there were a lot of people that believed that free trade was the ultimate ideal. What we had to do was continually work at bringing down duties. Other countries said, well, that was OK for their trading partners to bring down duties, but they had domestic interests. The Canadians were somewhat ambivalent about this. The Canadians sort of believed in free trade but were very concerned that they would leave themselves open particularly to the U.S. and this would interfere with their development objectives. Europe of course was concerned with building the Common Market and everybody had the problem with domestic interests that wanted to maintain protection.

The other issue which was looming larger and larger was the issue of the developing world. In the midst of this negotiation, 1965 to be exact, there came the first UNCTAD conference. UNCTAD stood for the United Nations Conference on Trade and Development. That produced a big battle within the U.S. government, particularly within the State Department, on how to handle this. The traditionalists argued that we couldn't or shouldn't breach basic principles such as our most-favored nation policy. What the developing countries were really seeking was discrimination in their favor, a kind of affirmative action program. So the notion of trade preferences, that is, that you reduce tariffs for the benefit of developing countries, was gaining more and more currency. The Europeans had endorsed it, and a number of other countries had endorsed it. The U.S. was the outlier.

There were also questions of commodity prices, which loomed large. That was not a new issue, but developing countries argued that the terms of trade were constantly going against them, therefore, what we needed were more and more international commodity agreements to raise prices. This ultimately led to a big battle in the State Department, and led to a change, particularly when President Johnson came in, to a change in leadership of the Economic Bureau. Griff Johnson departed, and Tony Solomon came in as Assistant Secretary at that time. Griff Johnson had actually gone to the UNCTAD meeting, but in the midst of it someone else replaced him as head of delegation, and I can't now remember who that was.

There's one other major issue that I should talk about, and that is an issue with Canada. The Canadians had this somewhat contradictory policy of being basically supportive of free trade, but were concerned about whether this would permit them to gain sufficient investment to build their own industries. And this came to a head in the case of automobiles. Their efforts to encourage investment were not working very well. The situation was that Canadian consumers, living astride the U.S. border, wanted the same kind of cars as U.S. consumers. And so their purchases were increasing, notwithstanding a rather substantial price difference, which was a result of Canadian tariff policy. The Canadians then introduced a so-called import for export scheme. They had developed what was then considered to be a large trade deficit in automobiles, about \$600 to \$700 million and they proposed to correct this through this import for export scheme. Basically, a vehicle manufacturer could import duty free a dollar's worth of goods for every dollar

worth of exports out of Canada. And what this was designed to do was to skew the trade more in Canada's favor.

This came at a point where there were also some things happening in the U.S. industry. Right about this time Studebaker decided to go out of the automobile business, but they did it by announcing they were moving their production to Canada. In fact, what they were doing was phasing it out. They were going to continue in Canada for a while, but they closed their plant in South Bend. And this caused a big ruckus. A parts manufacturer of mufflers then brought a subsidy complaint against Canada because of this duty remission scheme. And that produced absolute hysteria in Canada at the thought that we would countervail against imports from Canada. Douglas Dillon, who was Treasury Secretary, was just about to issue a countervailing duty order, when Phil Trezise came up with a brilliant idea.

Phil noted that what we had was a single industry sitting astride the border, with the Canadian plants in Windsor Canada is actually south of Detroit. The industry produced the same kind of vehicles, on both sides of the border, except that the production in Canada was inefficient as compared to the U.S., because the Canadian production runs were so small. For example, in the case of Ford, they produced 90 different models in Canada to meet consumer demand there. They would literally have to stop the assembly line to change from model to model. Wouldn't it be better, Phil suggested if there were an integrated industry across the border?

That led to the U.S.-Canada Auto Agreement. Basically, it was negotiated by four people. It was Phil Trezise and myself from the State Department, and two people from the Department of Commerce, Bob McNeill and Ted Smith. We negotiated this agreement over the course of about seven months, and it was a fairly dramatic event in U.S.-Canadian economic relations. There had been several attempts over the years to have free trade, going back to the 19th century. There was a so-called reciprocal trade agreement, which was abrogated at the time of the Civil War. There was a free-trade agreement that was negotiated in the late 19th century, but it was defeated in Canada after the Speaker of the House, Champ Clark, said that "with the approval of this treaty the Stars and Stripes will soon be flying over the Parliament Building in Ottawa." That didn't sit very well in Canada. There was a secret effort after World War II which came to naught, and never got to the stage of negotiations. So this was a pretty big event, especially in Canada, and the agreement was signed on the banks of the Perdinales (Texas) by President Johnson and Lester Pearson and the two Secretaries of State.

Q: Can we talk a bit about this. One of the themes in these interviews I've been doing is about negotiating with the Canadians. Most foreign service officers who've done this, this and negotiating with the Soviets are about on a par. Could you talk a bit about your experiences with these negotiations?

KATZ: I think it is worth commenting on. The thing about negotiating with the Canadians is that, at least in those days, is that you have two parties that are speaking the

same language, I mean literally and figuratively. There are some minor cultural differences, but for the most part the negotiations are between people who think pretty much alike. Negotiations tend to be very direct and very blunt. In this particular case, (the Auto negotiations) the Canadians had a team consisting of four deputy ministers, including one who was very flamboyant, Simon Reisman, and a dominant personality. Simon was a very smart, but volatile person, so that frequently the negotiations were characterized by a large amount of shouting, table thumping, profanity across the table.

The session that really broke the back of the negotiations occurred in Montebello, which was a resort half way between Montreal and Ottawa in November of 1964. We were holed up there for three days and two nights. There was one point in one almost all-night session, when there was a fair amount of disagreement, not only across the table but within each of the delegations as well. Tension was running high. Simon was misbehaving and then one of his colleagues tried to bring him down off the ceiling. Simon turned on his colleague and said, "who is running this f---ing negotiation?" That produced some shock and then great laughter, which broke the tension.

Q: Who were the people on our delegation?

KATZ: At that point we had others than the main gang of four. We had some lawyers there, and I can remember Phil Trezise also of blowing up. He was angry at both the Canadians and his American colleagues. I walked him back into a little ante room to calm him down. So, negotiations with the Canadians can be pretty wild swinging affairs. They are not quite as structured, or as diplomatic, as they are with other countries.

Q: It sounds much more closer to union management negotiations and automobile industry...

KATZ: That would be a fair comparison. In other negotiations I've been in people get excited, but there is much more civility because they are foreigners. But with the Canadians, there are many fewer inhibitions.

Q: Did the Canadians pull the "Big You and Little Us"?

KATZ: Frequently. There is the inferiority complex factor in our relations with Canada. There's an old story about the Canadians that they are a nation that suffers from two inferiority complexes: one with respect to the mother country and the other to the neighbor to the south. (I sometimes said to my good Canadian friends that the reason they had an inferiority complex is that they really were inferior.) So there is that, and much of their argument was that without some protection, everything will go south. That was something we had to constantly deal with.

Q: As this with Phil Trezise and all this idea of doing this industry wide negotiation; trans-border negotiation; was sort of the example of the coal and steel community, which was really the guts of the European Common Market.

KATZ: There is some parallel here. The Coal and Steel Community in Europe was seen as a forerunner of European economic integration. The Auto Pact had a somewhat similar impact, but it was not undertaken with the larger goal in mind. The Auto Pact was intended at the outset to deal with a specific problem.

It just didn't make sense to have economic barriers at the border in the auto industry. But of course there was the Canadian sensitivity about absorption -- being the 51st State. So one had to be sensitive about this. The idea of free trade, complete free trade as we have now, would not have washed at that point in time. But still, here was a sectoral free trade agreement. Of course, the biggest item of trade between the two countries was in the automobile sector. Much more so now, it's about a third of our trade now - I don't remember what it was then, but it was very important.

The success of the Auto agreement did give rise to questions whether there might be other sectors which might be appropriate for free trade. Simon Reisman, who at the time was the Deputy Minister of Industry, was a key Canadian figure in the negotiation because he had done an earlier study on the automobile industry in Canada, trying to address its inefficiencies. The remission plan, this import for export scheme, was a kind of integration scheme. What it did was to permit the companies, the four major companies, to integrate their operations across the border, although it was vulnerable to attack as a subsidy under our countervailing law. Simon was sympathetic to the notion of integration through free trade and had some notions that this idea could perhaps be extended to the tire industry, and chemicals and other things. But a lot of that was very private, and not an element of the negotiations.

Q: Well, one almost has to look at this type of thing incrementally, isn't that so? To get people used to these things.

KATZ: Yes, but that can cut two ways. There were times subsequently when the people began to see Canada as more of a threat, particularly as the trade balance shifted. And then for a while it was going up and down but after it began to shift, when John Connolly came along, I think he had a somewhat different view. In fact, well, we'll get to that later. But there was another point of view.

Q: With Canada, were there problems over cultural that got into your orbit?

KATZ: Yes, there was an issue and some of these issues continue today. There was an issue then about advertising in Canadian publications. They didn't like the idea of split editions of Time Magazine and the Readers' Digest. What they did was to sell Canadian advertising in the Canadian runs of those publications. They had been there for a long time, so they were somewhat grandfathered, but the Canadians didn't like the idea of American publications running a Canadian edition with Canadian advertising because this

competed with MacLean's and other Canadian publications. Canadians had a serious preoccupation with maintaining their own cultural industries, although they have not been able to persuade Americans that cultural industries were essentially different from other industries.

Clearly, the Canadian economy was a somewhat difficult thing to manage, because Canada, although a vast country to the north, in terms of population. was a country of about 100 miles deep and 3,000 miles wide. And the natural economic forces flowed north and south, and not east and west. And to make them go east and west, there were various subventions and policies to force economic relations to go east and west. Their railroad system was designed to unify the country at tremendous cost in subsidies, which they are now giving up; it's just too expensive. So they are ending the subsidies, and they are privatizing what is left of the railroads. But for more than a century they have maintained transportation and other subsidies. That has given rise to many problems with the U.S. This notion of maintaining an independent Canada is an everyday preoccupation with many Canadians. Of course no country is fully independent today, though no country will admit that.

There are a lot of bad jokes about Canadian culture, which I won't go into now, but we have believed that Canada's cultural policies amount to plain old fashioned protectionism. In addition to the problem of periodicals. we have had problems in broadcasting, and with acquisitions of Canadian book publishers by U.S. companies, which were disallowed.

There was also a banking problem, where CitiBank was denied the right to acquire a Canadian bank, whereas a Dutch bank was permitted to do so. I used to say that at any given time in our relations there was somewhere between half a dozen and a dozen issues with Canada. None tremendously large in money terms, after the auto issue, but very noisy disputes, particularly in Canada. Canadians, if not dominated by, live in fear of domination by the U.S. They are in a sense dominated by all of the noise that comes across the border, that generally flows in one direction. In the U.S. on most days when you pick up the Washington Post or New York Times, I daresay you won't see any stories about Canada. Pick up The Globe and Mail, and there will be half a dozen stories about what's happening in the United States. And that is a cause for sensitivity as well. The Canadians feel they are taken for granted. It's occurred to me the other day that the U.S. Canadian border has the longest one-way mirror in the world. It faces North.

Q: During this time, I'm not sure if you were involved in these types of negotiation: was Diefenbaker the Prime Minister then?

KATZ: No, he had already departed.

Q: This did mean a change, then, because he was very much a nationalist.

KATZ: He was very nationalistic. And Lester Pearson was much more international. But the other thing that began to affect the relationship, particularly after '64, but it was not

something I was directly involved in, but it was Vietnam. Lyndon Johnson's resentment over Lester Pearson's less than enthusiastic support for our policy was a sore point with LBJ. In fact, one of the reasons I guess, that the Auto Agreement was signed on the banks of the Perdinales, was so that Johnson could ream out Lester Pearson, which he did. In fact, some of this is written about in the Doris Goodman book about Lyndon Johnson.

Q: Well now, the other more contentious adversary/ally, whatever you want to call it, was France, wasn't it. How did you see American-French relations. What were your experiences with this?

KATZ: Well, I didn't see a whole lot of it in this period, particularly in the '60s. More of it in the '70s, and especially in the '90s. France, of course, was one of the main problems in the Kennedy Round negotiations. I don't really recall any other particular interest, but the problem of chickens, the problem of agriculture generally and the ecretement issue were largely driven by the French. So there was a lot of contention there, but not as great in the economic area as it became later.

Q: Did you as a negotiator have problems, knowing what American practices were, to go out and protest almost the mirror practice on the part of another country. I mean, we all have our areas of protectionism and all this, and one know this. But you have to go out and make protests.

KATZ: Well, that's not really a problem, because that's what the negotiation is about. You are trading widgets for gadgets, and you're trying to persuade the other side to deal with the most difficult things for him and he's trying to persuade you to do the same thing. Something that I never really liked to do, but a lot of American negotiators always fell back on the Congress. They always used the Congress as the bad cop. "Well, we'd love to help you fella, but you know, we just couldn't persuade the Congress."

Q: Take that weapon away and the whole State Department collapses.

KATZ: As I say, I didn't like to use that as the argument, but I would say that we just can't do it. This is the limit of our ability.

Q: With other countries, were they not as having to look over the shoulder as much as at their parliament?

KATZ: That's right. Our constitutional system made it somewhat difficult for us. Other countries could enter into an agreement, and because of the parliamentary system, that was it. But on the other hand, they still had their political problems. So in that sense, I'm not sure the differences are all that great. They had to deal with their industry groups or their sectoral interests, and we did too. In fact in later negotiations our system changed so that there was much greater participation by the private sector, not directly, but through an elaborate advisory committee structure.

Q: Did some of the countries, particularly Canada, France, Britain, and all, know how to play Congress at the same time they were negotiating with you. Did you have the feeling they were making their contacts and working on Congress at the same time?

KATZ: I wouldn't say that was the case with respect to negotiations, particularly not at the time of the Kennedy Round. Later on in terms of specific issues, they became much more adept at dealing with the U.S. political system. And they do now. In the old days, it was not considered appropriate for a foreign diplomat to even deal with the Congress, or indeed, even go to another agency before coming to the State Department. The situation now is very different. In fact, most embassies in Washington of any importance have congressional officers. They have people with specific responsibilities for the Congress, and of course they have direct relationships with other agencies. The same is true of our agencies, For example, the Secretary of Agriculture, if he is any good, knows all of his important counterparts around the world. So with the Secretary of Commerce or the USTR in terms of trade ministers, etc.

Q: Again, we're talking about the Kennedy Round, obviously the Department of Commerce and I assume the Treasury played a role. I was wondering, how you found their caliber and their outlook, and how we meshed with them.

KATZ: Well, this is an important area. With the Trade Expansion Act of 1962, there was an important organizational change in the government. The question of who managed trade policy had been an issue in the government, and had shifted from the State Department to the Commerce Department, and the argument was being made that it ought to be shifted back to the State Department. Basically, the Commerce Department was considered to be very industry oriented -- narrowly industry-oriented. And that wasn't satisfactory. And of course the State Department was suspect for other reasons.

Q: Giving away the store?

KATZ: Yes, giving away the store. And so in the 1962 act, the Chairman of the Ways and Means Committee, Wilber Mills, came up with the idea of creating a Special Trade Representative. The reason he gave, (I don't think he said this publicly) was, "We have to do this because we don't trust the State Department, and the Commerce Department is incompetent." Well, both statements were exaggerations. But I think it reflected this feeling that you couldn't trust either departments. So the Office of the Special Trade Representative was established within the White House. Governor Herter, who had just been Secretary of State, was the first STR. It was initially, a very small organization of about perhaps 20 or 30 people. Some of the personnel came from the State Department, and some from the Commerce Department, and some from other agencies as well. That is the model that has existed for 30 years now with some further evolution, with the STR becoming the USTR, the United States Trade Representative instead of the Special Trade Representative, with Cabinet status. It has grown to about 160-odd people, with maybe another 50 detailees from other agencies. But in any event, in those days that was the structure, and Governor Herter was beginning to become ill, and wasn't as deeply engaged

as William Roth, who was the Deputy who basically ran STR. Joe Greenwald, who was the Director and I as the Deputy Director of the Office of Trade, spent a lot of time at STR. The delegations, the negotiating delegations, were basically made up of a lot of State Department people and a lot of people from our office, as well as others. There was an incoming class of Foreign Service officers, and a group of 10 or 15 were detailed to a negotiating team in Geneva. In those days the most of the negotiators were resident in Geneva. Two of the junior Foreign Service officers that I remember in particular, are Winston Lord, and Ernest Preeg, who were members of the delegation. Both went on to distinguished careers.

Q: When this came about, this Special Trade Representative, what was sort of the reaction from your point of view and your observation of the State Department to this?

KATZ: This happened before I actually got there; some months before I got there. But the first question when I was asked to take this position was what was going to happen to the Office of Trade with this new institution. The answer was we would continue to play a major role, and indeed we did. But there was initial anxiety. In fact, the other thing that happened was that one of the State Department lawyers, who I had worked with very closely on some other matters, John Rehm, particularly on aid matters and aid legislation, went over to become General Counsel. He wrote the Executive Order and, being a good lawyer working for his client, put a lot more functions in the STR than he thought he would ever get away with. And much to his amazement, it all stuck. George Ball just accepted it all. And that caused a lot of discontent in the Office of Trade. But the truth of the matter is that the State Department and the Foreign Service officers really dominated the STR.

Q: Was there a problem of where the Foreign Service, looked at trade as a method to get other things done? In other words, you don't want to mess too much because we've got North American defense problems, NORAD and Canada, or with France, we want them to be good to us in Africa, or something like that.

KATZ: I wouldn't say that was generally true. But you know the institution. The Economic Bureau was pretty much focused on economic interests, not unmindful of larger foreign policy interests. But we were in constant battle with geographic bureaus, particularly the European Bureau. And in a sense, we were sort of between a rock and a hard place, because we dealt with the domestic interests and the other agencies, and then on the other side we had the geographic bureau pulling us in the other direction.

Q: What were the geographic bureaus after, as opposed to the

KATZ: Well, what they were concerned about were good relations with their countries, you know, a certain amount of clientitis. Incidentally, this was not a problem in our negotiations with Canada, for example. We had a fairly good relationship with the Canadian desk. It was a bit of a problem in the Uruguay Round, particularly as we argued about agricultural policy.

Q: With all these negotiations, did the Soviet Union, were they a player at all?

KATZ: No. They were non players. As for the other communist countries, Poland had been a signatory of the GATT, but withdrew in 1949-50, as well as from all international economic organizations. The Czechs did not withdraw from the GATT, but we had severed our relationship with Czechoslovakia in the GATT in 1951 when we had to withdraw most favored nation treatment. And of course, Castro came along in the 1959-60 and we invoked a security exception and basically severed our GATT relationship with Cuba. So the communist countries were just not players in the '60s.

Q: Now how much was this what we called the developing, non-developing, even North-South relationships; the less well-off countries to the well-off countries? Johnson made a big announcement, but how much was this hyperbole, and how much were we really trying to do something to change the flow?

KATZ: As I say, there was a division within the State Department and the government on this. Here again is the difference between the geographic bureaus and the Economic Bureau. The Latin American Bureau, for example, was much more sympathetic to the South. The African Bureau had just been born, and they were not terribly effective. NEA, was basically out of it; that wasn't much of an issue for them. And the Asian Bureau was not terribly active, but basically sympathetic. So it was largely with the Latin American Bureau that we had this problem. And of course a lot of the intellectual content of the developing country agenda was really coming from Latin America and from an economist named Raoul Prebisch, who had been the Executive Director of the Economic Commission for Latin America. He was an Argentine who was persona non grata there and lived in Chile. But he became sort of the intellectual father for a lot of these ideas, like preferences, the terms of trade argument, and commodity agreements.

When the Kennedy Administration came they put forward the Alliance for Progress, which was intended to promote economic development in Latin America and the Caribbean. That is how we got into the International Coffee Agreement and attempts at some other commodity agreements. But that didn't really so much affect what the big boys were doing in the GATT. The GATT was pretty much free of the LDC debate, but increasingly in the '60s, and especially in '63, '64, and '65, this issue of developing countries became intense, culminating in the UNCTAD meeting in 1965. A lot of the debate focused on the issue of tariff preferences. Despite the support for preferences, there was a lot of resistance to breaching the MFN principle. I was opposed to preferences. Notwithstanding the fact that we ultimately adopted the generalized preference scheme, I never much cared for the idea.

Q: When you say generalized preferences, what did this mean?

KATZ: This is something that happened in the late '60s. This was something negotiated by Joe Greenwald. He went to the UNCTAD meeting and began focusing more and more

on these north-south issues. But ultimately there was an agreement reached in the OECD, and then brought into the GATT to create a so-called system of generalized preferences, as opposed to special preferences, country by country. And there were general rules of the road by which developed countries would extend to developing countries tariff preferences. They had to be zero duty, and not just duty reductions. They had to be available to all countries that qualified as developing countries. They were not to be regarded as permanent. They were to be debt digressive, that is, they were to be eliminated over time. They were not to be an obstacle to reduction in MFN duties and digressive in that sense that the margin of preference would decline as MFN rates declined. We ultimately legislated that in 1968.

Q: We talked about Canada at some length, but how about Mexico? Did Mexico play much of a role?

KATZ: No, Mexico was not a member of GATT until 1986. There was great opposition among the highly protected Mexican private sector to the idea of the GATT.

Q: Is there anything else we should discuss about this time?

KATZ: Yes. In 1967, there was a reorganization in the Bureau. This was after Tony Solomon had come in as Assistant Secretary. He'd come in '66, I guess, and by 1967 he had decided on a reorganization, which was to increase the number of Deputy Assistant Secretaries from three to five and to reorganize some of the offices within the Bureau. Joe Greenwald became a Deputy Assistant Secretary for Trade, and I became the Director of the Office of International Trade. But then in 1967, one of the Deputies, Ed Freed, moved over to the White House. And so, I was asked to take over his job, which was Deputy for International Resources and Food Policy. This position had responsibility for three main areas. One was energy, the Office of Fuels and Energy; another was the Office of Agricultural Policy; and the third was the Office of Metals and Minerals.

Tony Solomon called me in and said "I want you to move over and take this job." And I said, "Gee, I don't know anything about commodities." The whole thing seemed kind of grubby to me. And he said, "Look, let me tell you something. It's like all other problems we deal with. They essentially involve politics and economics. Once you get past the jargon, they are like every other problem we deal with. But there is one difference. Everything else we do in the bureau really involves following somebody else lead, or checking on somebody else. If it's financial, it's really the Treasury that is out in front. And if it's trade, now it's STR. And there are only two things that we do in the State Department that we really control, one is aviation policy, because we do all the aviation negotiations. And the other is commodity policy. Everybody thinks that commodity policy is too technical, too detailed, too dirty for important people to be involved in. But the issues are interesting and they are important." I said, "Well, O.K., what the hell." I always went and did what I was told. So I moved in there.

Q: Excuse me, but what was Tony Solomon's background?

KATZ: He was an interesting man. He started out in the brokerage business. He started out working for Bache after he got out of college. And then World War II came. He ended up in Iran, and he was a financial advisor to the Shah. He then came back after the war, and went to Harvard and got two masters degrees. And then went into a business in Mexico, which he sold to General Foods for a lot of money. People loosely said a million dollars, but a lot of money. After that he became interested in public policy and he came in with the Kennedy Administration as a Deputy Assistant Secretary in ARA, Latin American Affairs. As I said he then came over to the Economic Bureau. In the Carter Administration he was named Under Secretary for Monetary Affairs, a very important post. In 1980, he became President of the New York Federal Reserve Bank, another very important job. So he had quite a distinguished career.

In any case, I moved into the commodity area, and one of the first problems I faced was coffee. We were a member of the International Coffee Agreement that had been negotiated in 1962, for a five year term. In 1967 its extension had to be renegotiated. That negotiation was basically handled by the Office Director, George Jacobs, who was the Acting Deputy Assistant Secretary. So I became temporarily the Acting Director of the Office of Commodities. while that negotiation was going on and when he moved out, and I became the Deputy Assistant Secretary. Coffee was a major part of my responsibilities initially, and then I got into other commodity issues.

Q: What were the issues in coffee?

KATZ: The International Coffee agreement was a kind of cartel that regulated the world market for coffee. What distinguished it from illegal cartels was that the membership was made up of both importing and exporting nations. This provided a balance, which assured against abuse by producers. The objective of the agreement was to stabilize prices at levels acceptable to both producers and consumers, and this was done through the setting of annual export quotas, which thus effectively regulated the supply on the world market. The importing countries kept the exporters honest by agreeing not to import coffee unless it was properly certified by the exporting country. So the annual battle was deciding what was to be the size of the quota with the importing countries wanting larger quotas and the exporting countries wanting smaller quotas, but all wanting to cheat vis a vis their exporting colleagues. It took a lot more time than it was probably worth in the end. It was central to the Alliance for Progress, and our relations with Latin America, because so many of them were coffee producers and coffee represented a high proportion of their total exports.

Q: How did you get information about who was doing what? It sounds almost like an espionage operation.

KATZ: Well, some of it was, although we were not involved in that part of it. But basically, it turned out to be an exceptionally useful education in multilateral negotiations. There was a Secretariat in London, which collected information on imports and exports

and price data. Although the price data was actually collected by a contractor in New York, for the benefit of the International Coffee Organization. So we would have all the information available, and after some analysis on the state of the market, and where it was going, and where it was likely to go, we would express our views on the size of the quota for the year ahead.

I should note that we had the benefit of the U.S. Department of Agriculture, which at the time was the foremost collector of production information in the world. In fact, everybody in the world relied on USDA for production data. Individual countries had their own production figures and exports, but they were not considered as reliable as those of the USDA. We also had industry advisors who were parties of interest, so we had to be somewhat careful and take what they told us with a grain of salt, because they created pressure on us to keep the quota large to keep prices down. The other side of it were the exporting countries, who wanted prices high, and therefore argued for lower quotas.

There were an interesting array of forces, because among the exporters there were the Latin Americans and there were the Africans. Basically divided on types of coffee. And in Latin America there were the Brazilians, the Colombians, and then the Central Americans. So there were all these different forces coming together, and everybody wanted big quotas for themselves, but small global quotas, prices high but not so high they that they couldn't compete against other countries. It was a complex negotiation that took place on an annual basis, and then from time to time there were crises because the price would plummet for some reason and then we'd be called back to London to try to do something on an emergency basis.

Q: Was there an equivalent of a Senator from Folger's, which is one of the big coffee producers?

KATZ: Not really, but from time to time there were people in the Congress that would get involved in this, and particularly in the '70s; I don't know if you want to save that for chronological purposes.

Q: I want to talk right now from the '68-'74 period.

KATZ: Let me just stay on coffee and finish that. In the early '70s there was, for a number of reasons, an explosion of commodity prices. Partly driven by the energy crisis, and by inflation in the world, and also production cycles, particularly in the case of coffee and coffee prices began to rise. And so the issues became more contentious. The dollar was also falling. The U.S. had gone off of gold in 1971, which was probably another inflationary factor, and the coffee producers were saying we had to increase the price of coffee in order to compensate them for the loss and value of the dollar.

Coffee was being priced in dollars. So as the value of the dollar fell, in relation not only to gold, but to other currencies, they were saying they were in a bad position and therefore we had to raise the price of coffee. One of the differences in the coffee agreement as

opposed to other agreements it that we did not try to push prices beyond the cyclical level. There are two ways of dealing with prices and that is to try to control the broad cyclical changes, as opposed to the smaller year-to-year changes. And what we tried to do was to stabilize prices within these larger cyclical trends. Basically we looked at the prices on an annual basis and we thought, well, if they were a little too low, we'd try to push them up a little, and if they were a little too high, we would try a little more supply. But we weren't going to try to bring about a massive change. We didn't think it was possible or desirable.

About this time also there began to be some congressional interest in rising coffee prices. One congressman in particular, Freddy Richman, who made a lot of money in the casket business in St. Louis, somehow ended up in a constituency in Brooklyn. It was a low income area, although he himself lived on Park Avenue. I'm not quite sure how he managed that. He got on my case, so I had a number of contentious sessions with him.

Q: What was his interest?

KATZ: Well, he was representing a consumer interest, or so he claimed. He was Chairman of a Subcommittee of the Agriculture Committee on Consumer Affairs, and that was his platform. But he was a pretty outrageous guy and he later got into trouble. You know, time wounds all heels, and he later was apprehended by the Capitol Police for soliciting Capitol Pages. And then was finally censured for dealing in marijuana or maybe other substances, so as I say, I thought it all came out pretty well at the end from my viewpoint.

In 1975 there was a disastrous frost in Brazil. It was a 100-year frost in Brazil and wiped out a tremendous amount of coffee production. And prices zoomed. They had generally been under one dollar. When I started, they were in the 30-40 cents per pound. They got to \$5.00 per pound in 1975, and there was a congressional investigation. Abe Rosenthal, who was Chairman of the Foreign Affairs Subcommittee held a hearing, and Richmond was present. That was one of the worst hearings that I ever attended. Generally, I did very well in Congressional hearings. But this was a very contentious hearing. In addition I had with me, Joan Braden, who was the consumer representative in the State Department with me. And she was more than a bit of a problem, because she decided she didn't like the coffee agreement either. And I said, "Look, this is a Treaty, to which the United States was a party and underlying that was a policy approved by the President, and you can't go up there and testify against the Administration's policy." And she said, "Well, I'm the consumer representative." I said, "Well, then you go up and testify, because I'm not going to go up with you tagging along." We had a little confrontation before the Under Secretary, Chuck Robinson who was reluctant to take a stand.

Finally, we agreed that I would be the State Department representative and Braden would accompany me, but adhere to policy. She sat there and squirmed, but said almost nothing. Year's later, I found an autobiography of hers on the clearance rack of Crown Books. As I leafed through it, sure enough there was a reference to me that was not unflattering, but in

one passage she said that I regarded her as a "pain in the ass." I thought to myself that I never actually expressed the thought, but I surely agreed with the sentiment.

The most contentious moment in the Hearing was when Rosenthal turned to some testimony that I had given on a previous occasion. He said, reading from a text, "You said that prices should not go up."

One of my aides sitting behind me quickly found the passage which read, "Barring some new production disasters, prices should not go up from these levels." I attempted to read the full passage, but Rosenthal would not let me do so, saying "Answer the question, yes or no, didn't you say prices would not go up?" I said, "If you will permit to read the full sentence of what I had said ..." Again he said, "Answer the question, yes or no." And when I tried one more time, he said, "Mr. Katz, you are right on the edge." At that I shut the book, slammed it on the desk, and sat there and glowered at him. After a minute or so, he said, "O.K., now you can read it." and I opened the book and read the full passage."

After the Hearing had ended, one of the Republican members came up to me and said, "Mr. Katz I admired your forbearance." I thanked him, but said, "Gee, I didn't think I was all that calm." That was the worst Congressional experience I ever had. For the most part, my other experiences were quite favorable and I had excellent relationships with members and Congressional staff.

There is another issue in this period, that was extremely important, and that is energy.

Q: Then let's talk about energy. Because this was all of a sudden that it became THE issue.

KATZ: Yes, starting from 1967 I began to become increasingly involved in energy policy. There was an issue with Canada over their oil exports to us, and in 1969 the Nixon Administration undertook a major study of our oil import program. That program was instituted by the Eisenhower Administration in 1959 and by 1969 had become riddled with problems and inconsistencies.

Another major issue that became active in 1969 was textile policy. Perhaps we can leave that for the next time, even though we will be skipping ahead chronologically.

I suggest that we tackle the energy story first by talking about the Oil Import Program review. Next we can deal with the Canada issue. Then we can with the larger energy issue which became the Energy Crisis of the 1970's.

Early in the Nixon Administration it was decided that the ten year old Oil Import Program should be subjected to a thorough going review. As I said, by 1969, the program had become riddled with anomalies. The program was intended to promote national security by limiting imported oil, except those received overland. The idea was that by limiting the import of "cheap" crude oil, we assured the viability of our domestic drilling and

producing industry. The effect of course was to drain our domestic reserves, but the national security justification was a thinly veiled cover for old fashioned protectionism.

At any event, overland imports of crude oil from Canada were exempt from control, but oil from Venezuela, coming through the Caribbean were deemed "insecure", and thus subject to quota.

Mexico provided an interesting example of the distorting effects of bad policy. Since the volumes of oil from Mexico were too small to justify the building of a pipeline, they came by tanker and were thus also restricted. However, someone discovered a loophole. Heavy crude oil from Mexico was brought by tanker to Brownsville, Texas, off-loaded "in-bond" onto tanker trucks, which had to be heated, because the oil was heavy and would gel. The trucks would then go round a traffic circle, and proceed back to the ship, where the oil would be reloaded onto the ship. The ship would then proceed to refineries at Wilmington, Delaware. Because the oil entered the U.S. customs territory from an in-bond facility, they were deemed to have entered overland, and were thus exempt from control. This came to be known as the "Brownsville Loop".

Another anomaly was the situation with Canada. As I noted, overland imports from Canada were exempt. They could hardly be regarded as insecure. This resulted in complaints of discrimination from Venezuela, which argued, with some validity that imports through the Caribbean could not really be regarded as insecure. To make matters more complicated, production in Canada were beginning to expand as were exports into the U.S. Since Canadian oil received the benefit of the premium U.S. price, this provided a great stimulus to the Canadian industry. Also northern tier U.S. states which did not have good pipeline access to crude oil from the Gulf Coast were increasing their demand for Canadian crude.

Thus beginning in 1967 and continuing through 1969, we pressured the Canadian Government to take action to reduce their crude oil exports to us. The Canadians were not prepared to control exports formally, but did jaw-bone their industry, not too successfully. This became a sore point in our relations over this period.

The other significant anomaly was the growth of the small refiner industry. The way the Program worked was through the issuance of oil import permits, or tickets, to refiners. Since imported oil was a dollar or more cheaper per barrel than domestic oil, the tickets were worth the amount of the difference in price and were traded as securities. Tickets were initially allocated on an historical basis, but over time, and through political pressure, they began to be allocated to new refiners, whose true purpose was to capture the economic rent from the quota system. There were in fact documented cases of refiners who earned more revenue through the sale of tickets than from refinery throughput.

The overriding factor leading to the review of the oil Program was that our domestic production had peaked and we were clearly going to need increasing levels of imports. The review of the Program was undertaken by an interagency task force headed by

George Shultz who at the time was Secretary of Labor. He had come to this position from the University of Chicago where he was a Professor of Labor Economics. The Executive Director of the task force was Phil Areeda, a distinguished Harvard Law Professor.

The major conclusion of the review was that the existing program did not adequately protect national security and that imports should be liberalized, but not fully decontrolled. There was a considerable debate within the task force whether there really was a threat of supply disruptions from insecure sources. We in the State Department argued that the Middle East was likely to be an increasing supplier and that it was inherently an unstable, if not insecure, source of supply. The conclusion of the task force was that the answer to the problem of insecurity was diversity and that efforts should be made to increase supply from Western Hemisphere sources.

This brings us back to Canada, with whom we initiated an intensive negotiation on energy security in 1970. I should note at this point that the main players in this effort, in addition to myself as Deputy Assistant Secretary, were Phil Trezise, who was then the Assistant Secretary for Economic Affairs and the Director of the Office of Fuels and Energy, Jim Akins, who was an interesting personality.

Q: Could you talk a bit about Akins because his name comes up, and I've seen him in operation just a little bit. It sounds like there's a tremendous ego which sort of gets in the way of things.

KATZ: That is a fair way of putting it. Extremely smart, very knowledgeable. He was educated as a nuclear physicist, I believe. He had an engineering background. But then he taught English at the American University in Beirut and really became an Arabist. And then he got into petroleum.

But, back to Canada. As I said, the situation with Canada was somewhat anomalous. On the one hand, we wanted Canadian oil. It was secure, at least for the time. It did meet the need of Midwest refineries that didn't have access to oil from the Gulf of Mexico. But what was happening was that Canadian oil was beginning to penetrate beyond the small refineries along the border and was coming into the middle of the country. And this presented two problems: one, there was competition with independent refiners in the U.S. who had ties to independent petroleum producers. And there was problem with Venezuela, I mentioned before.

What was happening was that Venezuelan oil which then couldn't come into the U.S. was going into eastern Canada, while we were importing from western Canada. So you had this strange kind of triangular trade. Also, because of Canadian geography and topography, their pipelines didn't go west to east. They couldn't easily supply their own requirements in eastern Canada. In a free trade environment, this might have happened anyway. But because of the distortions of the Oil Import Program and its associated political problems, the growing volume of imports from Canada became an irritant.

Sometime in 1970, however, another thing began to bother us. The demand-supply situation was beginning to change and relations between the oil producing states of the Middle East and the major oil companies were becoming somewhat more contentious. We began to become concerned about a potential problem with Canada. If there were to be a supply interruption in the Middle East, as had been threatened by Arab producers, it would result in a rearranging of supply lines. Canada was importing some oil from the Middle East at the time, as well as from Venezuela. Venezuelan oil might be diverted from Canada to Europe and to the United States. We were concerned that Canada might then divert their mid-west shipments to eastern Canada.

The Canadians did not agree with, arguing that they could not divert oil to the east because of the lack of pipelines. There was, in fact, a small diameter, east to west pipeline, but clearly inadequate. We in turn argued that but they would be under tremendous political pressure to supply eastern Canada. We said, "You couldn't just let them go cold in the east; you would deliver it in pails if you had to."

We thus proposed discussions on how to protect our mutual security interests, and thus began a series of meetings with the Canadians about oil supply in particular and energy in general. At some point, some Canadian, I don't remember now who it was, talked about a continental energy policy, which later became anathema to Canadians. Politically, in Canada, continentalism was a bad thing because it suggested Canada would become the 51st state. It used to be that they did not want to be the 49th state. I used to say to the Canadians that they waited too long. They could have been the 49th and now they were going to be the 51st. But in any case, we had this series of conversations at fairly high levels. Phil Trezise, who was the Assistant Secretary, and I, and Peter Flanagan, who was a counselor to President Nixon.

KATZ: In these discussions with Canada we talked about various things like pipeline connections, we talked about gas supply, we talked about coal trade in which we had a vigorous trade with Canada going North. Generally we imported oil and gas from Canada in increasing amounts. We were also beginning to import some electricity and we exported coal to Canada. We tried to put this into a context, but Canadians were very resistant that smacked of a continental policy. And they were mostly foot dragging. Until about 1973. In the beginning of 1973, the Canadians had begun a national security study of their own, and concluded that yes, there were certain circumstances in which they could be vulnerable. So it was not until then that they recognized there was a security problem, and they developed a contingency plan to reverse the small east-west pipeline and be able to have it flow west-east, and to expand the capacity. The problem with building pipelines across Canada is the geology, not being able to very easily dig pipelines. But that was then overtaken by the larger event, which was the Arab oil embargo later in 1973.

Q: Before we leave Canada, I wonder if you could talk a bit about dealing with the Canadians. There's one theme that runs through interviews. People who have had to deal with the Canadians on things, it's like dealing with your next door neighbor. Everything

is very intimate. We both know everything, and yet it can be very acrimonious and very difficult. How did you find it?

KATZ: The next door neighbor is a good analogy. Not only because they are our next door neighbor, but the degree of familiarity is much greater than it is with most other countries in the world. And the other thing is that they speak the same language. Not only the same language, but increasingly in the same vernacular. In my early encounters there were still some people in Canada that had sort of funny accents. After a while they were indistinguishable from Americans. Negotiations at certain points were not only acrimonious but very blunt and spiced with locker room expressions. The other problem with Canada was that Canada suffered from a small country mentality. They tend to be somewhat defensive. That, I think, has changed over time, but there was one other problem that I particularly became aware of in later years, and that is because of this kind of intimacy with people knowing one another very well, there began to be lingering resentments, especially on the part of American officials, you know -- "By God, you pulled this little brother act on me last time and you're not going to get away with it again." There were a series of incidents like that.

There were in the 1960's and early 1970's a number of outstanding senior Canadian civil servants, Deputy Ministers, known as the Mandarins. People like Ed Ritchie of External, Jake Warren of Trade and Commerce, Jim Grandy of the Privy Council, and Simon Reisman of Treasury. They were people of broad experience, and typically had served in several cabinet departments. They were also people of vision and political courage. While we did not always agree, we (particularly Phil Trezise and I) did get on well together with much mutual respect.

Reisman became a legendary figure, in part because he was such a strong personality. He was called out of retirement to lead the Canadian side in the U.S.-Canada Free Trade Agreement, which added to the legend. He was known to tangle with colleagues and politicians, as well as with Americans.

Why don't we get back to the energy story.

Q. O.K.

KATZ: Late in 1970 and 1971, Jim Akins, as Director of the Office of Fuels and Energy began calling attention to what he saw as a developing crisis in energy. He noted that fact that relations with producing countries were becoming more difficult. There were contentious negotiations by the oil companies with Libya in particular, and the Shah continually wanted more money, and the Saudis wanted more money, and so on. There was a kind of leap frogging process. One country would raise the price a little bit, another country would then want to catch up and move ahead and so forth. There were also changes in the demand for energy. Demand was burgeoning. Production and exploration for various reasons hadn't kept up.

Q: When we are talking about energy, we are really talking about petroleum.

KATZ: We are talking primarily about oil. It becomes larger in scope, encompassing gas but the issue was really being driven by oil. Other changes were taking place, such as new environmental regulations which changed the kind of oil we needed. We needed lighter oils, less heavy and low in sulfur, which put a premium on some countries like Libya. And throughout this period there were difficult negotiations between the companies and the producing countries over prices. And then of course then came the 1973 war, and the embargo.

Q: You are talking about the Egyptian-Syrian attack on Israel.

KATZ: Yes, the war came late in 1973, the Arab-Israeli War. The Arab boycott followed and then prices exploded. At one moment, in October prices were doubled by the Iranians and the Arab states, and then by December prices were doubled again.

Jim Akins, blossomed in this period. You characterized him well. He was really quite arrogant and intemperate. He was seeking and getting more and more publicity, and while that didn't bother me at all, some of his public utterances did. He was a very bright fellow, and I think he was prescient in many ways. But he would make some outrageous statements, and at one point I remember calling him in. He had just given a speech, the content of which I found very objectionable. The speech, of course, had not been cleared by me or anyone else. He was making predictions, and my concern was that they could be self-fulfilling predictions. And I said, "Jim, you and I have got to come to an understanding. Either you are going to work for me or I'm going to work for you. Now I'll do it either way, but we can't go on this way, where you just go off on your own, and make statements that I think are terrible." He said, "Jules, you're absolutely right. If I were you, I couldn't stand me."

So, we'd have these occasional flairups, but basically we got on all right as long as I could control him, but I couldn't very often. At one point, there was a blowup, when he said the price of oil was going to \$10.00 a barrel. I said, "How can you say that?" And he said, "Well, look at the demand-supply curve." He had a curve, and he showed demand going up in a straight line projection. And I said, "Jim, demand is not infinite. At some price, demands turns down." He said, "You don't understand the oil business. You're looking at this as an economist." And I said, "Well, I think economics matters." "Well, but you don't understand the oil business. Demand is infinite." And I said, "Well look, that's just ridiculous." Now, as it turned out, the prices did go to \$10.00 a barrel. And at some point later, he said, "I told you so." And I said, "Yes, but you were wrong. Because you said they were going to get there some years later. You got the \$10.00, but your timing was way off."

At any event, after the Arab world boycott, I became even more involved in energy policy than before. Bill Casey became the Under Secretary for Economic Affairs, and he became more and more interested in oil policy. This was even before the Arab-Israeli War. And in

fact, we worked together on a speech that he was going to give at the OECD, laying out an energy policy for the OECD, which unfortunately went over as a lead balloon, mostly because his delivery was so bad.

Q: I was going to say, William Casey almost became notorious as the head of the CIA during the Reagan Administration, but that he mumbled an awful lot.

KATZ: He always mumbled, but he was an incredible person in many ways. He was a man of great intellect, a voracious reader, who would read anything he could get his hands on. His desk was literally piled 18 inches high, with papers and books. I don't know how many books he read in a week, but he just read everything he could get his hands on. But kind of a floppy man, floppy clothing, papers coming out of his pockets. After he left the State Department, I encountered him on the New York shuttle, and he had a leather portfolio. He was getting seated as I came by, and I said, "Oh, Hi Bill, what are you doing?" He said, "I've got to get back to New York. I just got into my trust account," and his portfolio had papers coming out of it, and there were bonds and other securities coming out of it. I was afraid that if he walked out onto the tarmac they would all blow away. I was a great admirer of his, and I was very sorry about his end. He was always fascinated about intelligence. He had, of course, been in OSS during the war.

In any event, this policy that we tried to establish in the OECD didn't go over very well. But then came the Arab-Israeli War, and the price of oil exploded. Henry Kissinger by then was Secretary of State. He became very absorbed in the issue because it was obviously tearing the NATO alliance apart and had important ramifications in terms of Middle Eastern policy. So from that point on, I had become increasingly involved in it, in 1972 and 1973, but then especially thereafter, I was closely involved in it. I should also note that what we had tried to sell in the OECD speech formed the basis of the program pursued by the International Energy Agency that was created in 1974.

Q: Why don't we stop at this point, and then we'll pick up and talk about energy and how after the war you became more and more involved and all that.

Q: Today is the 7th of July, 1995.

KATZ: Let's resume on energy.

Q: I guess we'd better come to the oil crisis. For somebody to be reading this some years later, could you talk about what happened, before you talk about how it hit us.

KATZ: Just to put this in a little bit of context, of course, oil is a commodity. And a commodity in the sense that there are boom and bust cycles. Most commodities have cycles because there are booms in investment, overproduction, a collapse of prices, a collapse in investment, consumption goes up, the capacity doesn't keep up and then you

have another spiking up of prices, and then the cycle begins all over again. After the Suez crisis in 1956, particularly by 1960, there was a collapse in oil prices. Prices fell to pretty close to \$1.00 a barrel. It was about that period that we instituted our own oil import program, partly for that reason. Our own producers couldn't compete, so we protected them. And then about the same time, in 1960, OPEC was formed. OPEC was created among a number of oil producing countries, with Venezuela in the lead. And also in the years that followed, there was increasing government takeovers of oil production, by way of nationalization. Governments in producing countries became more involved in pricing and producing decisions.

Q: Your position again was?

KATZ: My position at the time was Deputy Assistant Secretary for International Resources and Food Policy and energy was one of several offices that reported to me. The Office of Fuels and Energy, which was headed by Akins, a Food Policy division, and a Metals and Minerals division. In addition to energy, I spent a lot of time in agricultural policy as well, particularly coffee. But increasingly energy was beginning to preoccupy my time.

Beginning from about 1971-72, and then certainly into '73, there was a general inflation, which was also further stimulating this pressure on oil prices. And in early '73, there were negotiations between the oil producers and the oil companies. Both the Libyans on the one hand, and then the Gulf producers and the Iranians. For a number of years, the Shah had been putting pressure on the companies both to increase production and increase prices to finance his insatiable need for revenue. And what began to happen was kind of a leap-frogging. In the Libyan negotiations, going back to 1970-71 there were several times when there was an impasse, and interestingly in the light of history, what they were arguing about were pennies and then dimes. The Libyans wanted an increase in price and the companies offered something like \$.09, and the Libyans said they wanted \$.30, and companies finally got up to \$.16 and I think they broke off negotiations at about \$.21. The Libyans finally got an increase but this led to a process of leap frogging, with the Saudis insisting on a greater increase., and then the Iranians, and then another round of the same.

Q: What was the U.S. government's role in this?

KATZ: The U.S. government's formal role was that of an very interested bystander, occasionally making diplomatic representations because we were concerned about the economic and political stability of the area, and of course, the stability of oil supply. So we weren't so much taking positions saying no, you shouldn't ask for more than \$.21 or \$.31; we were urging moderation on the part of governments, and negotiation on the part of the companies.

There was a time when Jack Irwin, who was the Deputy Secretary, went over to the Middle East on a mission at a particularly crucial moment and that was interpreted as a lot more U.S. government involvement. But as I say, we were trying to play a middle role,

this was between the companies and the governments. Middle is perhaps not accurate -- we weren't precisely in the middle, we were off-center, urging price restraint, but we were not a party at the negotiating table.

Q: How about other governments?

KATZ: The British and the French were clearly involved. ARAMCO did involve the British, but not the French. And the Italians, of course, were in there as mavericks and felt left out, and so they were making their own deals where they could, the effect of which was to bid up the price.

As you know, there were many characterizations of the energy crisis as a conspiracy, either an OPEC conspiracy, or a U.S. government conspiracy with OPEC. But what was really driving all of this were market forces. The oil demand was burgeoning and ultimately peaked. For various reasons, capacity hadn't grown as fast as demand, because of the long depressed prices from about 1960 to 1970. And increasing involvement of governments, which made it more and more difficult to invest in new capacity. But by the spring of 1973, it was clear that this was becoming more and more of a problem. Even concern about ultimate supply.

It was at this point of time that Bill Casey and I went to the OECD ministerial meeting to outline a collective energy policy for OECD countries, which involved some form of oil sharing in a crisis, a conservation program, and stimulation of alternative sources of energy. I worked very hard on this. These were not just my ideas, they were a collection of ideas that we had been talking about for some time. In fact, there had been various efforts in the U.S. government along these lines too, to establish new energy programs, which didn't get very far.

Up to that point energy policy had been pretty much in the Department of the Interior, and the Office of Emergency Preparedness, headed by retired General Abraham Lincoln -- distantly related, as I recall. Shortly thereafter, the Federal Energy Agency was created, which became the Department of Energy in the Carter Administration. Jim Akins, of course, again had a lot to do with stimulating action in the government.

To a digress for a moment, he wrote a report which was quite a good description of the problem and the vulnerability we faced, and it was sent around to various Cabinet officers, and one afternoon I got a call from Admiral Rickover, still head of the nuclear program. In a very peremptory way, he said, "I understand that the State Department has produced a report on energy, and I want to have a copy of it." And there was something about his tone of voice that ticked me off.

Q: He was renowned for ticking people off.

KATZ: I was still pretty feisty in those days. I said, "Well, it's a classified report, and you can get it from the Secretary of Defense." And he said, "Are you telling me that I can't

have this report?" And I said, "As I said, you can get it through appropriate channels." I don't remember the other specific comments, but the conversation got pretty loud, and my last comment was "Listen Admiral, I'm not one of your tinhorn sailors." This was loud enough that one of my assistants two offices down came into my office and said, "My God, what was that all about?" And I said, "That was Admiral Rickover." That got to be a big joke in the office thereafter.

Anyway, to get back to the story, the point is that there had been a lot of work that we had been doing, and I give Jim a lot of credit for this. I don't know where he was at that time, and why he wasn't at the OECD meeting. But we produced this speech, Casey gave the speech, and it went over like a lead balloon, but it stood us in good stead for what was to unfold in the remainder of the year, or in the following year. Because by early October, there was another round of company negotiations with the oil producers.

Q: October of ?

KATZ: 1973.

Q: Which was just in time for the last of the series of Arab-Israeli wars, too, wasn't it?

KATZ: That's right. But just preceding that, there was another negotiation between the oil producers and the OPEC countries in Vienna, and a very acrimonious negotiation. It was broken off, and for the first time, the OPEC states then imposed a price increase, and they roughly doubled the price of oil. Just almost days after that, within the week, came the Arab-Israeli War.

Q: So I think sometimes it's forgotten that OPEC made the move before war started, and the war was not particularly building up, I mean it came as a great surprise.

KATZ: Absolutely. But the two events quickly coincided. And then soon after that, the Arab states declared a boycott against the United States and other countries who were supporting Israel. And then almost immediately or soon after that, the Shah then doubled the price again, so there had been a quadrupling of the price within a matter of months. This then set into motion some furious diplomatic activity, and what was happening at the time was what we feared most, and that was that there was a scramble for oil, particularly among the European countries.

Q: And Japan too?

KATZ: And Japan. And incidentally, one of the worst actors was an American company, that went out and bid well above the OPEC price in an auction in Nigeria. At the time it was a shocking price for oil, well over \$10.00 a barrel, I think it was \$16.00 a barrel. The firm was Coastal States, which was a small oil company on the Gulf coast, I think out of Texas. Then the Shah called for an auction, and people were bidding which at the time seemed like astronomical prices, almost up to \$10.00 a barrel. So Jim Akins' prediction of

\$10.00 a barrel came true, but as I said to him, it came a lot earlier than he had predicted, but obviously for a very different reason.

Q: Can I capture the mood of the State Department in your particular view of these moves of the Shah, of OPEC. Were these people all of a sudden villains? How did we feel about them?

KATZ: I wouldn't say they were villains. Obviously, they were acting in ways that were inimical to our interests, but they were pursuing their interests. Our views were obviously colored by our own concerns. We thought also that they were really not acting in their own long-term interests. By pushing up prices as fast as they were, they were running various risks, which incidentally came to pass. That is what finally did the Shah in. When all that money began to be distributed around, the economy and politics of the country were destabilized. We had not exactly predicted the Shah's ultimate fate. We just felt that it would all be destabilizing to the country and to the region.

Q: Nixon, if anything, was renowned for having sort of an enemies list, which got very personal. Did this translate? Vindictiveness was one of the hallmarks of not just Nixon, but some of his supporters, who were basically political types, Haldeman, Ehrlichman, domestically, but did you get any feel for this?

KATZ: I had no direct contact with Nixon. I had a lot of contact with Peter Flanagan, and I got on very well with him, although there were a couple of times when I had shouting matches with him. There was one time in particular when I said, "You are probably going to throw me out or get me fired or something, but I don't give a damn, you're absolutely wrong." He said, "Look, when you have something to say, you say it. That's what I like about you." He was a pretty feisty Irishman, but we got on very well together. Beyond that I do not recall anything in terms of vindictiveness toward the oil producers. We were just too wrapped up in the problems of the hour. Things were just moving very rapidly. Also the oil producers had us over a barrel, no pun intended, and I don't know what we could have done, if we had wanted to take punitive action.

Now, it was about this time, this was when Nixon disappeared, well, he left in 1974. But in September of 1973, Kissinger came to the State Department. And so, things changed in the State Department. Kissinger very quickly became involved in the Arab oil embargo. First of all, he became very involved in the Middle East crisis, and went to the Middle East. I recall when he came back, a fascinating description of his trip, with two particular things that I remember: his praise for Sadat -- Sadat was the person that impressed him most on his trip. He said he was the only person over there that he encountered that had some sense of strategy, of having some sense of where he wanted to go and how he would get there. All the others all had this view that somehow the Messiah would come in from the dessert and save them all, but didn't have a clue. And the other thing that I remember were his meetings in Saudi Arabia. He was just full of excitement about this. And I suspect his Jewish background may have had something to do with it. I mean, he never alluded to that, but here he was, in Saudi Arabia. But he was apparently treated with great

respect. But one of the comments he made; he'd had these conversations with the King, and then he went back to his room and he said all through the night people kept knocking on his door, different princes or personalities kept calling on him. One comment was, "You must understand the King, he's old and he's stiff-necked." But there were different messages being given, and he said everybody had a slightly different view. He said it was just like the NSC.

Q: The Arab-Israeli October war was over rather quickly, but the oil crisis remained. Kissinger has a certain reputation of not being particularly comfortable on economic things. How did you find him on this, because this was something you couldn't ignore.

KATZ: That's absolutely right, and Kissinger of course, had a lesson in economics going back to 1971, and we didn't cover that, and we need to do that. That is, the Nixon New Economic Program. Let's finish energy. Kissinger's approach to economics was same as to everything else, and that is, that there had to be some strategic purpose in all of this and it had to fit in with our strategic objectives. And what he saw was that this crisis was tearing apart the alliance because various European countries were scrambling for oil, were trying to cut their own deals where they could.

The oil companies, incidentally, were behaving very well, because it was in their commercial interests to do so. They were kind of balancing supply, to kind of keep all of their customers satisfied to the extent that they could. There was one incident in the U.K. where the companies were called in to meet with the government, and the message was something to the effect that Her Majesty's government would not appreciate if the extraordinary arrangements they undertook to supply oil to the United Kingdom were upset by the independent activities of the companies. To their credit, British Petroleum told them to go bugger off. They said, "unless we are ordered to do so, we will continue to supply our customers in the way that we see fit." So what we tried to achieve in the OECD actually was being done by the companies. In fact, going back to the '67 war, there was a special anti-trust waiver in U.S. law, which permitted the companies to do this, to engage in these collusive arrangements basically to supply all their customers. There was a procedure in law where the Attorney General could waive the anti-trust laws for a specific period of time, and that waiver was given during the 1973-74 embargo.

In December 1973, Kissinger decided to take a trip to Europe. I went over with Bill Donaldson, who had come in as Under Secretary for Security Affairs, but was given the oil portfolio. That was one reason Casey left, although there were other reasons. He called me into his office and he told me that he was leaving, that he was going to the Ex-Im Bank and he said he had tried to resign before, and Kissinger kept putting him off, and finally he said he was leaving. Kissinger said, "Why are you leaving? I need you." And he said, "Well, you don't need me, but you know, when Bill Rogers was here this was like a sedate law firm. Now it's like a goddamn college seminar." At any event, Donaldson came in at that point, and I went off to Europe with him, and then Kissinger was in Europe at about the same time and it ended up in a trip to London, where Kissinger was

going to make a speech to the Pilgrim Society. But what we found was a real state of hysteria among the countries.

In this speech, Kissinger laid out a plan, and this was a kind of typical Kissinger approach. Calls came down from his office wanting some ideas. "We need some kind of an action program." In a moment of exasperation I said, "O.K., let's call it an energy action program." And that's what went into the speech, an "EAP". It didn't have a whole lot of details, but called attention to this problem of the alliance tearing itself apart. Somehow we had to have a collective energy policy. In that speech, he called for a meeting of foreign ministers, finance ministers, and energy ministers in Washington in early February.

He then returned from Europe and said, "Now what are we going to do in the Energy Action Program?" So we began working, and I remember working all through New Year's Eve, on a telegram, laying out some proposals. Ultimately, the Washington Energy Conference in February 1974 developed a plan. It was also notable for the action of the French, and the French Foreign Minister Jobert, who was a Gaullist. He later, after Pompidou died, ran for President. One of his statements in the campaign was "Countrymen, let it not be said that France is being nice again."

Q: How did you find the French?

KATZ: In a word, impossible. They did everything they could to frustrate this conference and the coming together of a common approach. And in fact, what they ultimately did was to ensure its success, because Jobert was so brutal in his tactics and statements that he thoroughly alienated all of his European colleagues. I recall one morning when the European Community ministers were caucusing over the draft communique. The larger meeting was being delayed until they concluded. We had stayed up all night writing a communique and a report and the French were objecting, so the Community ministers went in to caucus and they were in there quite a long time, and I was kind of hovering on the outside. This was in the large conference room on the first floor in the State Department. And then Henri Simonet, who was a member of the European Commission, came out of the meeting, kind of red-faced. And I said "How is it going?" He said, "It's all over. It's finished. I just made a statement. And I said, if it's between the Community and the Americans, I'm for the Americans and to hell with the Community." This was a Commissioner, a vice president of the Commission. What happened in the end was that the French isolated themselves, and everyone went along with us in the face of the French objection. And what this ultimately led to was the creation of the International Energy Agency in Paris, which the French did not join, and to this day, are not members of. They cooperate with, but are not members of the IEA.

Q: What was our analysis or gut feeling about why the French were doing this? Was it just the French being French? Or did they have a rationale for not doing this, or national interests?

KATZ: Their rationale was that this would irritate the Arabs; it would be seen as a coalition against the Arabs, and it's not unlike what the French are doing with Saddam Hussein. The French want to end the embargo with Saddam Hussein.

Q: You are talking about the dictator of Iraq.

KATZ: Yes. It's what has become to be classic French behavior. The issue was whether the industrialized countries, which was really what this represented, basically the OECD countries, would be better off acting in solidarity, or would everyone go their own way? And the French basically argued for countries going their own way. The other countries were also concerned about something that looked like an alliance against the Arabs, but the French were so blatant and so brutal in their approach, that it really helped the U.S. position.

Q: Did that more or less, was the creation of this agency and sort of everyone getting their ducks in line, help sort of stabilize the situation, would you say?

KATZ: Yes. What came out of the conference was an Energy Action Group, and that led to about six months of negotiations. I was traveling to Brussels every three weeks to create the International Energy Agency. They developed an oil sharing program, which never really functioned, because the 1973-74 crisis was even beginning to diminish. Of course, there was the Iranian crisis later in the decade, in the late 1970s, when it did come into force. That was not an embargo situation, but a tightening of oil supply, another ramping up of oil prices. I'm not absolutely sure, but I think the sharing mechanism was put into effect at that point. But there were other forms of cooperation, on nuclear energy, on conservation programs, and analysis, which helped the market. By the end of the '70s, particularly after the Iranian crisis, of course oil prices began to fall, from about 1981 on they've been really low, and in real terms they are quite a bit lower than they were before.

Q: While we are still on this, before we move back again, dealing with economics, did the sudden wealth of Iran and the Nixon-Kissinger almost delight in selling the Shah every new weapon system you could get, did concern about that come to your office?

KATZ: Well, the concern of course, was with the amassing of wealth by the oil states, and the concern about what that would do to monetary liquidity in the world. You know, they were winning all of the chips in the game, and could the game continue? This came to be known as the recycling problem. How could the oil revenues be recycled? I recall making a remark at the time, "Well, don't worry, they'll find a way to waste all that money." In any event, there were various mechanisms put into effect to assure that the money would be recycled. But basically they spent it all. It was the subject of a lot of conversation and hand-wringing for several years, but it turned out not to be a problem. What happened was that the Shah went on a spending spree, well, they all did, to the point where ports in Nigeria were so crowded you couldn't land goods, and similar problems in Iran. In Saudi Arabia, wealth was pretty well distributed. A lot of folks became very rich, princes and nephews and cousins, and so forth. Interestingly,

subsequently some of those countries, including Saudi Arabia have had budgetary and balance of payments problems. They did a lot of things like growing wheat in the desert, which I don't think has turned out to be terribly successful.

Q: In all this talk about the oil crisis, no mention is made of the Soviet Union. Could you talk about how we saw them at that time.

KATZ: The Soviet Union was not really very much of a factor, in the crisis or of its management, although they were major exporters at the time. In the second half of the 1970s there was concern about what the Soviets were doing to their oil fields. The CIA came up with a report showing that the Soviets were stripping their fields through bad management practices, and the implications were that this would put further pressure on world oil supply. The particular concern was that some countries, particularly in Western Europe, relying on imports from the Soviet Union, would find themselves cut off after a while.

There was also a similar report with respect to Saudi Arabia. The Foreign Relations Committee, Chairman Frank Church, got onto this. I just happened to be sitting in a briefing session the day before yesterday, with his chief staffer Jerry Levinson, who was agitating on this and is now agitating on other issues. But I think to some extent that the estimates about the Soviet fields proved to be true, but probably also exaggerated, because there still are vast oil reserves in the former Soviet Union.

Concern about the Soviet fields also became an issue, late in 1978 and 1979, when there was a decision by President Carter to cut off the supply of oil field equipment to the Soviet Union because of the imprisonment of Anatoly Sharansky. Jim Schlesinger was very much instrumental in that because he thought we ought to do everything we could to impede the production of oil in the Soviet Union. He and I had some arguments about that. Schlesinger was the first Secretary of Energy.

The Department of Energy was created in the Carter Administration. Jim Schlesinger, of course, had been Director of the Office of Management and Budget in the Nixon administration, and Secretary of Defense in the Ford administration, and Secretary of Energy in the Carter administration. He had also had been Chairman of the Atomic Energy Commission. He and I developed a good, close relationship, particularly when he became Secretary of Energy. In fact, when I retired from the State Department, he presented me with the Department of Energy's Distinguished Service Medal. But he and I just disagreed on this point about Soviet oil. My view was that our interests were in energy supply. I didn't see why it was in our interest to have the Soviet Union in a deficit position, putting a further drain on world supplies, but he saw it more in a cold war sense, a way of putting pressure on them, and in fact, it was probably one of the things that did help to contribute to the collapse of the Soviet Union. So in the end, he may have been right.

Q: So, you were dealing with energy up until when?

KATZ: Well, up until I left, in 1979. I think just about the last week before I finally retired, I went off to a ministerial meeting to the IEA in Paris, where we were presenting some more proposals. So I pretty much stayed with it all through that period.

Q: Did you find a change with the Carter administration, as far as the role of the State Department and your work dealing with energy?

KATZ: Well, there were some differences, but not a major difference. The Energy Department was created; there were policy issues that came up in connection therewith, including energy legislation. There began to be a realization that our domestic allocation program was more of a hindrance and a burden on energy supply and oil supply than it was a help. But a lot of the issues that were ostensibly domestic policy issues had international ramifications, so that I was frequently involved in meetings at the White House.

There was a meeting that took place at Camp David, an all day meeting with President Carter. I happened to be the ranking available economic official in the State Department at that moment. Dick Cooper, the Under Secretary for Economic Affairs was off somewhere as was Secretary Vance and Christopher was running the Department, I guess, so I went to this meeting. All the other people were Cabinet officers: Blumenthal, Secretary of the Treasury; Schlesinger, Secretary of Energy; Juanita Kreps, Secretary of Commerce, along with some White House people, Hamilton Jordan, and Jody Powell. There must have been about a dozen people around the table. One of the major issues was getting rid of the allocation program and it was a rather interesting day, with Carter a hands on participant.

Q: I would imagine the allocation program would be basically a domestic political problem.

KATZ: Yes, it was primarily a domestic problem, but it was hard to separate the domestic from the international aspects of the energy problem.

Q: How did Carter meld into the energy business?

KATZ: Well, as I said, he was very hands on; very engaged in the conversation. I just felt very comfortable in participating. I didn't feel at all inhibited. In fact, when we broke for lunch, there were two large round tables, and I kind of waited for my proper place and let the others go before me, and I found myself at the end of the buffet line. The round tables were filled, and there was Carter sitting with Juanita Kreps at a table for four, and he motioned for me to join them. So here I was having lunch with the President of the United States. He was so down to earth that I felt very comfortable. He was certainly very knowledgeable, and wasn't so much putting forth his own views as soliciting the views of other and trying to arrive at a consensus.

There was one other experience I had with President Carter and that was with natural gas supply negotiations with Mexico in 1979. This is out of chronological sequence, but why don't we get it out of the way now. In the late 1970's we had the second energy crisis and were trying to obtain what energy supplies we could, especially from reliable sources.

In 1978, Mexico had indicated some interest in selling natural gas to us, although this was a somewhat delicate political issue in Mexico. Jim Schlesinger, the Secretary of Energy initiated negotiations with the Mexicans which broke down over the question of price. The break off led to some bitterness over some statements made by Schlesinger.

Carter visited Mexico in early 1979 and the visit got off to a very bad start. At the outset, Carter in a speech made a reference to his experience with Montezuma's revenge during his honeymoon in Mexico. Secondly, President Lopez Portillo delivered a rather bitter speech, detailing the affronts to Mexican dignity suffered at the hands of Americans. When the formal meetings began the next morning the atmosphere was distinctly chilly. Carter broke the ice by asking whether the Mexican's wanted to look back or to go forward.

Finally, it was decided that negotiations would be resumed and I was given responsibility for the negotiations. Again, the main issue was price. While I approached the task in a much less dogmatic way than had Schlesinger, there were still limits to how far I could go. Our position, for one thing, was constrained by the competition of natural gas with fuel oil. If the gas was priced too high, it would not sell. Secondly, we were concerned about the effect of agreeing to too high a price for fear that Canada would use that as a reason to raise its price on sales to the U.S. And Canada supplied far more gas to the U.S. than would Mexico.

I traveled to Mexico seven times that year in an effort to find an agreement and every time I got close the Mexicans would back away. They seemed to be quite schizophrenic on whether they wanted a deal. This reflected the sensitivity of the issue in Mexico.

At one point in the negotiations I was called to meet with President Carter to brief him on the state of the negotiations. He was clearly very interested and wanted a deal. His questions interestingly reflected some concern on whether I was being influenced by Schlesinger. I was not, but still there was a limit to how far I thought the price could go. Finally, we came to a crunch, with the negotiations about to break up, when Warren Christopher, the Under Secretary of state stepped in and agreed to a price I considered over the line. I told him so, saying that he could conclude the agreement but no gas would flow to the U.S. market. That was in fact what happened. The deal was concluded, but before the pipeline expansion could be completed, the price began to fall and very little gas was imported from Mexico.

Q: Turning from that, let's go right back to, you mentioned Kissinger's learning about economics or something when he was with the NSC?

KATZ: Yes. He was the National Security advisor, but was a non-player on international economic matters. In fact he was away from Washington during one of the most important events of the Nixon Administration. What had happened was that in 1971, we had what was considered then a serious balance of payments problem. We were losing gold. We still had a lot of gold, but there was increasing concern about this. I was not so much involved in this issue. I was basically involved in resources and trade. Most of this took place in the Treasury circle, with our Office of Monetary Affairs somewhat involved.

In the middle of August, Under Secretary Nat Samuels was away on vacation. He was somewhere up on a mountain in New Hampshire. And the Assistant Secretary, Phil Trezise, was off on Mackinaw Island in Michigan, where there are no vehicles or telephones. And I was Acting Assistant Secretary. I encountered somebody on the street on Friday around lunchtime, and began talking about things going on, and I said, "I sort of have a sense that there's something happening, but I can't quite put my finger on it." I don't remember now what exactly what led me to that. And there was some discussion with my friend about some financial developments in the markets in the world. Then we went off on our separate ways.

On Saturday night I went out to dinner with my wife, but before going out to dinner we went out to Dulles Airport to meet a friend who was transiting, on his way to Europe. We never actually got there because there was an air show, and the traffic was so backed up we finally had to turn around. We went on to an early dinner, and got home about 9 pm, and the phone was ringing. It was the Operation Center in the State Department. They said, "My God, where in the world have you been? We've been trying to reach you." They had been paging me at Dulles because someone in the office knew I was going out there, but I'd never gotten there. And I said, "What's going on?" They said, "The Secretary wants to reach you. Are you going to be there?" And I said, "Yes, I'll be here the rest of the evening." And I never heard anything more. The next morning I had another call from the Op Center, saying, "Are you going to be there? The Secretary wants to talk to you." "Yes, I'll be here." I never did hear from the Secretary, but finally about noon I got a call to be at the White House at 3 o'clock.

I went to the White House, to the Cabinet Room, and there was John Connolly, who was Secretary of the Treasury at that point, and Peter Peterson, who was Counselor for Economic Affairs, and they were presenting a briefing. It was August 15, 1971. And this came to be called President Nixon's New Economic Program. And there were a number of dramatic steps that were taken. The U.S. went off of gold; we closed the gold window; effectively devalued the dollar; put a ten percent surcharge on imports; and put on wage and price controls. And incidentally, this was because we had a balance of payments deficit of something like \$1 billion, and price inflation of 4%, but the program was somewhat draconian. At the meeting also, were Jack Irwin, who was Deputy Secretary, and Alex Johnson, who was Under Secretary for Political Affairs. All of this program had been developed at Camp David from about Friday, Saturday, and Sunday morning. There

was no one at this meeting from the State Department, which was to be the subject of later recriminations.

I was then asked to stay behind afterwards because there were a whole lot of things we had to do in terms of informing the rest of the world. After the meeting broke up we went into Kissinger's office; Al Haig was there. Kissinger, I think, was on vacation.

Q: August is always an interesting month in Washington.

KATZ: Yes, and in the world.

Q: I always said that World War II started the first of September, because you couldn't get it together before that.

KATZ: And World War I started in August too, didn't it?

Q: Yes.

KATZ: In any event, we then went into Kissinger's office and there were a series of things to be done. The first thing was to bring all the foreign ambassador's in and brief them on this. There were telephone calls to be made in the world and various telegrams sent. And they said, "We're going to get all the ambassadors into the State Department at 8 o'clock, and at 9 o'clock President Nixon is going to deliver an address to the nation. I said, "You can't do that." "Why not", I was asked. "Well," I said, "You can't lock the diplomatic corps in the conference room." They said, "Well, we don't want them to get out and have the word get out before the President comes on the air." I said, "Well, if you're going to do that, then do it afterward. It's too late to say you've consulted or informed them beforehand. Brief them at 9:30." Irwin and Johnson agreed with me, and so that was agreed to. And there were some other arrangements made.

Then I was told to go over to the Treasury, to review all the telegrams that had been prepared, announcing this programs in telegrams to our embassies abroad. So I went over there, to John Petty's office, who was the Assistant Secretary for International Affairs, and as I read through the telegrams, there was a message to Ottawa providing notice to the Canadian government of our denunciation of the Automotive Agreement with Canada. We were providing our six month's notice, or maybe it was a one-year notice, with an intention to renegotiate. I asked where did this come from? This wasn't mentioned in the briefing." Petty said, "Oh, that had been agreed to." I said, "You can't do that. Maybe you can do this with the Russians, you denounce the agreement, tear it up and say you'll start again. But you should not do that with a friendly government and a close trading partner."

What had happened was our surplus on automotive trade with Canada had gone from something like \$800 million positive to a deficit of something like \$100 million. So this was part of this balance of payments approach. It was all ridiculous, but anyway, Petty said, "Well, I'm sorry, it's decided that that's it." I said, "Well we will see about that." So I

got on the telephone and tried to call Jack Irwin. The phones in his office were switched over to the Op Center, and I couldn't get through to him, and I got kind of panicked. But finally after a while I did reach him, and described the situation. He said, "What can you do about it?" I said, "Give me the word, and I'll get it changed." He said, "Well, O.K., do your best." And that was all the authorization I needed.

I went looking for Paul Volcker, who was the Under Secretary for Monetary Affairs in the Treasury Department and had been central in putting this program together. I was told he was having dinner in a conference room. So I went flying down the hall to see him. It was now something like 6:30 pm. I raised problem with him and he said, "Well, I don't understand, what is the problem?" I said, "Well, you can't do this with a friendly government. Not only with a friendly government, but you are going to cause tremendous disruption to the automotive industry, which sits astride the border." And he said, "Well, O.K., what would you do?" I replied, "Well, if you want to negotiate, propose negotiations, or renegotiations, but don't tear up the agreement."

Volcker agreed and said, "Well, O.K., then take it out of the package." But his press guy standing there says "But it's already in the press release." He showed it to me, and it was on one page. So I said, "Well, we'll just tear off the page." So we go flying down to the basement where this is all being assembled, and it turns out that it's not on one page, it's printed back to back, so they have to unstaple it. In those days they didn't have xerox machines, they had mimeograph machines. So we had to tear off all these pages, rerun the page, and this press guy was very irritated. And then someone comes running down, saying, "Ziegler (Nixon's Press Secretary) is calling, and wants to know where the press releases are." I said, "Tell him to wait, damn it!"

So I got it removed, and then went back to the State Department. I got called into Secretary Roger's office, and he was there wearing dark glasses. He apparently had an eye infection, but he was on the phone making telephone calls to the Japanese Prime Minister and people in Europe, giving them notice. Actually, the call to Japan came through while the President was on the air, so there wasn't very much advance notice in all of this. And then the speech was over.

Q: That was, I think, the second Nixon shock, wasn't it?

KATZ: This was the second; the first one was the opening to China which had come earlier that year.

Q: And this one hit Japan very hard.

KATZ: That is right. And then there was a third shock in this package, which we didn't know about at the time. Anyway, Rogers said "The President just called me and he's very pleased the way all of this had worked out, but he wanted to know, what was this thing about the Auto Agreement?" Somehow this had gotten back to him. So I explained it to Rogers, and he sort of grunted, didn't say very much about it.

This was later described in a book in Canada, which I've never seen or gotten a hold of, but anyway, I thought I had saved something at the time, some part of our relationship with Canada. Right after that, the Canadians came roaring down to Washington, because they were subject to this 10% import surcharge. This was the first time Canada had been subjected to a general balance of payments measure by the U.S. But had the Auto Agreement been denounced at that point, that would have had catastrophic effect on our the relations with Canada.

The other part of this package, which had not been disclosed at the briefing and we didn't know about, was the textile action. We had been trying for some time, since President Nixon had come into office, to discharge his commitment that wool and manmade fibers would be brought within the textile and apparel restraint arrangement. There was great resistance to this in Japan. Starting in 1969, in fact on Inauguration Day I was in Florida attending a convention. I got a call down there saying that we'd been called to a meeting at the White House on textiles. The meeting was to announce that the President had made a commitment and we were going to get an agreement on the other fibers.

Maurice Stans, the Secretary of Commerce, was put in charge of this, and he went off to on a trip to Europe, and then I joined him on the second half of the trip to the Far East. I had the Office of Textiles within my area of responsibility. At the time, I was still Deputy Assistant Secretary for International Resources and Food Policy, and the Office of Textiles was one of the offices that reported to me. Joe Greenwald was the Deputy Assistant Secretary for International Trade. Joe went on the first half of the trip, and I went on the second half of the trip and joined Stans. And then I went on the Far Eastern trip with Stans, to Tokyo, Seoul, Taipei, and Hong Kong. Those were the four major producers at the time: Japan, Korea, Taiwan, and Hong Kong were the major sources of imports. All of this was unsuccessful, and Japan was the focal point of the attack. The feeling was that if we could get Japan, the others would come along.

So, as part of this Camp David affair, a decision was made to impose an agreement on Japan. I'm sorry, let me go back - After this first Stans effort, which came to naught, there were further efforts made. And the White House kept insisting that Japan would agree to do this. We in the State Department felt that Japan would not do this, even though Prime Minister Sato had made a commitment, the Prime Minister in Japan didn't have the power to do this. It was a consensus decision. What we didn't know was that there were back channel communications through CIA. The CIA station chief was passing messages between Sato and Nixon, with Sato soliciting further pressure from the U.S..

In any event, it all came to naught and Sato then came to Washington, and there was great irritation by Nixon. Nixon said he wouldn't talk to him about it. Sato was feeling very contrite, saying, "Well, I need more pressure." So at the Camp David meeting, it was agreed that the Trading With The Enemy Act would be invoked against Japan, which was a rather extreme action, particularly the use of that law. It was an authority to take various economic actions. The Trading with the Enemy Act went back to 1918, and in 1933,

President Roosevelt invoked it because of the banking emergency, resulting from the collapse of the banks. This happened to be the available authority, and FDR invoked it. And that emergency stayed in effect until about 1977, when the law was changed and it became the Economic Powers Act, with different controls on it. In any event, that was the authority that was being used. When Rogers found out about this, he was pretty upset. There was a rather tense meeting in this office with Peter Peterson and David Kennedy, who had been Secretary of the Treasury and was designated as a special negotiator for textiles. Rather remarkable, when you think about it, I mean, how this subject could have occupied not only the President of the United States, but you had a Special Representative of the President for textiles.

Q: Well, I think to see it in its context, Nixon won partly by the Republican southern strategy, and the southern strategy was heavily into supporting American textiles. We're talking about the '68 election. And so, when Nixon came in this was sort of a major promise. So I think in that context it makes sense.

KATZ: It actually goes back to the Nixon-Kennedy campaign of 1960, when Nixon thought he lost the campaign because of Kennedy's textiles promise. So in the '68 campaign, he was determined not to be snookered twice, and so he made the commitment, and they were determined to carry it out. To continue, Rogers was pretty upset about this; he thought this was a pretty extreme thing to do, and there were some tense moments in the conversation, at which point I and some other people were asked to leave the room. But at one point Peterson said "Well, the decision has been made." (to threaten the Japanese with the Trading with the Enemy Act). Rogers said, "Well, O.K., but the strategy better work, because you're never going to do it again. You're not going to do it a second time, so it better work this time." Well, it did work, and it resulted ultimately in an agreement with Japan and the other four countries. And it ultimately became the multi-fiber agreement, which exists to this day, and is now scheduled to disappear sometime early in the next century as a result of the Uruguay Round negotiations.

Q: Let's talk about the Tokyo Round. This is when.

KATZ: The Tokyo Round took place from 1975 through 1979, a five-year period. But the story begins in the early '70s. The Kennedy Round had been completed in 1968, and of course, all of these GATT rounds, series of negotiations, were never designed to be the end of the affair. They were progressive liberalizations and expansions in the rules structure of the international trading system. So at the end of the Kennedy Round, in 1968, there was a lot of unfinished business. Moreover, there was a problem that developed, because in the Kennedy Round for the first time we tried to deal with non-tariff measures. Prior to that the negotiations had dealt almost exclusively with tariffs. But there were some non-tariff measures that we tried to deal with, but the legislation didn't authorize the President to negotiate on such matters. These were negotiated ad referendum, subject to congressional approval.

There was an agreement involving the Anti-Dumping Act, and how that was being administered. There also was an agreement on something called the wine gallon assessment. Under U.S. law, there was a difference in customs valuation and excise tax valuation on wine as opposed to hard liquor. Just to simplify it, hard liquor was assessed, not on the alcoholic content, but on the volume, so in effect, there was a tax on the water in the whiskey. It was called the "water in the whiskey problem." The effect of this was that it was cheaper to bottle scotch whiskey in New Jersey than in Scotland. And despite the appeal of water filtered through the heather as opposed to purified New Jersey swamp water, price made a difference. The British were hot on that. There was also an issue involving certification of boilers. You could only sell boilers in the United States under various building codes, that had an ASE, American Society of Engineers, certification. And they just happened not to certify foreign boilers, which meant that you couldn't sell foreign boilers in the United States.

We took these agreements back to the Congress, and as I explained earlier, the whiskey problem was opposed by a Congressman Watt from Kentucky. He wasn't going to give up on this, so that was turned down. And then Senator Russell Long of Louisiana, Chairman of the Finance Committee, took strong exception to changes in the Anti-Dumping procedures, so he blocked that. These two agreements that had been negotiated ad referendum, were in effect rejected.

When we began talking about a new negotiation, the question was how are we going to negotiate on non-tariff measures which had become increasingly important? As tariffs came down these other issues loomed much larger. Other countries were saying how do we negotiate with Americans? You can't negotiate unless you have authority, and you're not going to get prior authority for non-tariff measures.

It was coming out of this dilemma that the fast-track process was developed. I always describe fast-track as a process which, first of all, is not fast. It is a process by which the Congress gives the President an authority to negotiate and to bring back an agreement, subject to the requirement that the objectives are set out beforehand in broad terms stated in the legislation. The Administration must consult very closely throughout the process of the negotiation, so the Congress is aware of what is happening, and has an opportunity to express its views. If that procedure is followed, then when the agreement comes back to the Congress, the Congress will take it up under a fixed timetable and will render a decision yes or no, and will not amend the agreement. And that was developed in the 1974 Trade Act, and was used for the new negotiations which became the Tokyo Round. This issue of fast-track has become critical to the conduct of trade negotiations.

Incidentally, I thought it would never work, that the Congress could never be held to its own rules. For separate reasons, I recommended that the 1974 trade bill be vetoed. Among other things it had in there, which we are still wrestling with, was the Jackson-Vanik Amendment, which denied Most Favored Nation treatment to the Soviet Union, and to other communist countries unless they pursued immigration policy that was satisfactory to the United States. It had other provisions in the Trade Act which I felt were

very negative, but anyway my advice was rejected, and perhaps rightly so, but I thought at the time it was a bad trade bill.

The Tokyo Round negotiations were then initiated. These rounds had different names. Sometimes they referred to people, like the Dillon Round, after Under Secretary Dillon; the Kennedy Round, so named after the assassination. Sometimes they were geographic and the Tokyo Round was so named because that's where the ministerial meeting was held that launched the negotiations. They started in 1975. Nothing very much happened for several years, and I really wasn't very much involved at first because I was not primarily involved in trade policy at the time, but rather in resources, commodities. But I had become the Senior Deputy in 1974, I guess, so that I had oversight over everything that happened in the Bureau. So I became again a little more involved in trade policy, but still didn't really get involved in the negotiations. The Deputy Assistant for Trade Policy was more closely involved. But then when the Carter Administration came in, and Robert Strauss became the United States Trade Representative - incidentally, in the '74 Act the STR became the USTR, the Special Trade Representative became the United States Trade Representative and was given Cabinet rank.

Carter appointed Bob Strauss as USTR and Bob Strauss took over the negotiations and he said, "First thing we're going to do is we're going to get these negotiations started. For the last two years the only thing that's happened in Geneva is that people have learned to ski, and drink European wines." He asked me to become his Deputy at that time and to go to Geneva, and conduct the negotiations. I declined to do that, because I had a mild heart attack in 1974, and I had actually retired in 1975, although I didn't get to leave.

Joe Greenwald by then had become Assistant Secretary and asked me to stay on for several months to help him get started. This kept dragging and dragging and in the spring I said I'd been here almost 9 months, longer than I intended to be, and it's time for me to go. He said, "I can't talk to you about it now. We'll talk about it when I come back from the trip (he was about to take)." He came back and said "O.K., now I'm prepared to talk to you about it. I'm leaving; I'm resigning." And I said, "Damn it, that's what I was afraid would happen, and then I'd get stuck again. But I'm not going to change my mind, I'm going to leave." So I was scheduled to leave in July of 1976.

I then had a call from Larry Eagleburger (assistant to Kissinger) asking whether I would consider staying on as Assistant Secretary. I said, "No, I would not. I'm determined to leave. I've put this off for almost a year now, and I'm leaving." So it came down to Thursday night, and I was up on the 7th floor, saying goodbye. I was in Phil Habib's office, saying farewell to him, and his secretary came in and said, "Secretary Kissinger wants to see Mr. Katz." So I went in there, thinking this was going to be a farewell. He had Bill Rogers, who was the Under Secretary for Economic Affairs in there, and he said to me, "Sit down." And then he tore into Bill Rogers over some incident, which involved putting quotas on meat. And he said, "How could you do such a stupid thing when the Prime Minister of Australia is about to visit?" I was out of it; I had objected to the action but this was my next-to-last day, so I was just sitting back, somewhat embarrassed by this

tirade. And then finally, he said, "I can't spend any more time on this." And he points to Rogers and said, "You go," and points to me, "You stay." Rogers leaves and Kissinger says, "What's this about your leaving?" I said, "Yes, tomorrow is my last day." He said, "You can't do this now. We only have six months left in office and you can't leave now. Stay until the end of the Administration, or longer if we come back." I said, "Mr. Secretary, this has been a very painful decision. All of my instincts tell me to leave, and all my emotions keep me here. But I really have decided to go. Let me think about it and talk to my wife overnight." He said, "Jules, I know exactly how you feel. I feel the same way." I said I would let him know the next morning.

Of course, I'd had farewell parties, the Secretary of Agriculture had given a lunch for me. It was really quite embarrassing. Anyway, I went home and talked to my wife. She said, "I knew you wouldn't leave." I said, "Thanks a lot." Anyway, so I stayed on. So when Strauss asked me to be his Deputy, I did not feel that I wanted to take on a longer term commitment. I had agreed to stay on for a while with the new team in the State Department and I was in good health, but I did not want to get into the kind of a grind involved in leading a major negotiation in Geneva. So I turned Strauss down.

As it turned out, I stayed for another three years, because there was just one issue after another, including the Tokyo Round, in which I became increasingly involved, not as a direct participant or negotiator, but part of the policy team. In 1978, there was a session in Geneva of the interagency committee at the Under Secretary level, but mostly attended by Assistant Secretaries. That was an effort to bring the negotiations to a conclusion, and there were some key decisions made. The negotiations actually didn't get concluded for almost another year, but that involved a lot of details, so that July 1978 meeting was fairly important. Of course, Strauss was a character. He had a style that was very different from that of a lot of people. He described himself as a "closer." He said, "All of my life I've been a closer." And typically he would say, "Look, I don't know anything about this issue, and I don't want to know anything about it. But let me tell you what we've got to do. Here's how we have to bring this deal together." That was his art and his skill, and he was pretty effective in doing that.

Another incident that I recall at the time was an incident with Andy Young, who was at the time the United Nations Representative. He happened to be in Geneva at the same time, and there was a dinner one evening, given by our Ambassador there. He was not the Deputy Trade Representative, who also had the rank of ambassador, but he was Ambassador of the Geneva Mission, which did almost everything except trade. It did refugees and United Nations activities, and Andy was there for some purpose. This was my first real meeting with him, and I found him a very engaging person, although slightly naive.

One of the subjects that came up at the dinner was the discussion of something called the Common Fund, which was an idea which was developed in UNCTAD to finance buffer stocks for international commodity agreements, something that I had been deeply involved with. And it was simply a nutty idea, a terrible idea. Commodity agreements

themselves are basically a bad idea, although I had been involved with coffee, tin, and some wheat agreements, and tried to make them work, but like all cartels, they had limited life and limited usefulness. And buffer stocks would involve an expenditure of large amounts of money to support prices in defiance of rules of gravity, which affect commodity markets. At the G-7 Economic Summit, which had taken place in London a month or so earlier, Carter had finally succumbed to the pleas of the other G-7 heads of government, saying the United States, which had long opposed this would support it subject to certain conditions, which assured that it wouldn't happen.

Why were we opposed to the Common Fund, asked Young. We had a lot of arguments about that even back under Kissinger, who liked the idea for political reasons. Dick Cooper and I had talked about it. Dick was the Under Secretary, and he and I pretty much agreed and opposed the idea, but finally Carter succumbed. But, Andy Young raised the subject at the dinner asking, "Why do you all object to the Common Fund?" I said, "Because it's a bad idea." Fred Bergsten, who was Assistant Secretary of Treasury, was also present at the dinner, and he and I together pretty much blasted this idea. Well, among the other objections to it was that it was distracting attention from more constructive ideas that UNCTAD ought to be pursuing; they were just wasting a whole lot of time on this idea which was never going to happen anyway.

Andy then said, "Well, gee, well then why did we agree to do this?" And we all sort of looked at each other and smiled and made it clear that the President got suckered into supporting it for political reasons. Andy said, "You've convinced me it's a bad idea, and that we shouldn't be supporting it. I'm going to talk to the Secretary General of UNCTAD." And the Ambassador, who I believe was named Vanden Heuvel, was apoplectic. He said, "You can't do that; this has already been agreed to." Andy replied, "No, if it's a bad idea, then I think we ought to scrap it." Fred and I were very amused by this, we thought this was pretty funny. The next day I saw the Ambassador, and he said, "You know, Andy is serious about this, he's asked for an appointment with the Secretary General." I said, "Don't worry about it, nothing's going to happen."

As it turned out, the appointment never took place, because the next day Anatoly Sharansky, one of the leading Jewish dissidents in the Soviet Union was rearrested and this produced a very strong reaction by the United States Government and the President. Andy Young was asked about this and replied, "Well, we have more political prisoners in the United States than there are in the Soviet Union." I heard about this at about 8 o'clock that night, when Strauss had convened a meeting. We had all gathered in the U.S. Mission, and he said, "Have you heard what that crazy bastard Andy Young did?" He described what Andy had said and said, "I just talked to Carter and I told him to fire his ass out of there." Well, that was the end of Andy Young, but as I say, it was unfortunate, because I really liked him, I thought he was a very decent person, but somewhat naive, and spoke what came to his mind.

Incidentally, when we met at 8 o'clock, that was the beginning of an all-night meeting, which is what it normally takes to break the back of a difficult negotiation, and it was one

of several, although it took some months after that to actually write the agreement, and get it into force. So that took it into 1979, which was pretty much the time when I was leaving.

Another incident occurred at that time. As part of the implementing legislation for the Tokyo Round, there also developed a major reorganization of the foreign economic functions within the government, and this involved the transfer of a lot of economic functions from the State Department. First of all, the Foreign Commercial Service was transferred to the Commerce Department, and a number of other functions were transferred to an expanded USTR, including commodity policy, and investment policy. In June I had announced that I was going to resign and then again, for various reasons, it kept getting stalled, month by month.

I thought that the reorganization plan was a very bad idea, that it would really gut the State Department role, which was important from a foreign policy point of view, but also it would dissipate a very strong resource in the government. At the time, the Economic Bureau was really at a peak in effectiveness. I had five deputies who were just outstanding, all of whom went on to other important posts. Steve Bosworth, was my Energy Deputy, and went on among other posts, to be Ambassador to the Philippines at the time of the Marcos affair. Paul Boeker, my Senior Deputy became Ambassador to several countries, including, Chile and Jordan. Bill Barraclough, who unfortunately retired from the service early, certainly would have been an Ambassador. Mike Glitman, became Ambassador to Belgium. It was just an extremely strong Bureau.

I fought this up through Vance, with support from Dick Cooper, but we were not supported by either Vance or Christopher. Their reactions were like a wet noodle. So the reorganization did take place. I was leaving, so this was not personal on my part, I just thought it was a bad idea. In any event, what happened was that the Economic Bureau of the Department went into a period of decline in the 1980s. There were several commissions convened subsequently to try to reinvigorate the economic role of the State Department, but it has never really been the same.

Q: Why don't we stop at this point. The next time we pick this up we'll pick up after your retirement, your reentry into the foreign affairs field, and I'd like to talk a little more about how you saw the fighting over the demise almost of parts of the Economic Bureau. I think we might talk a little more about that next time.

Q: Today is August 9, 1995. Can you talk a bit about the Economic Bureau. Some things happened to it. What period was this?

KATZ: This was 1979, and it coincided with the end of the Tokyo Round trade negotiations. There is something about organization of government, in particular, that fascinates people, and especially members of Congress. They always think they can shape

it in some way that will make it better or more suitable to their interests. I'm not sure exactly what precipitated this, but there had long been a tension about the role of the State Department, particularly in respect to trade relations, going back to the '50 and '60s, and, as I have mentioned earlier, the lead responsibility and policy coordination role had alternated between Commerce and State. And then finally in 1962, in the Trade Expansion Act, Wilbur Mills created the Office of the Special Trade Representative. Incidentally, the person who claims to have come up with the idea, Mike Rashish, who unfortunately just passed on several months ago, was working then for Wilbur Mills.

The STR system worked well, I thought. The STR was a very small organization in the White House, which gave it a position somewhat above the agencies. But in fact a large part of its role was met by detailees, primarily from the State Department and Commerce. We in State provided a lot of the personnel and remained very close and worked hand in glove with STR. And the role of STR was rather limited, specifically to trade relations. In 1979, the idea developed, I think probably somewhat stimulated by people in STR itself, that the role should be expanded and for example, commodity policy, which had always been the province of the State Department, should be transferred to STR, and STR should be given a role with respect to investment policy, which had always been the preserve of the State Department, particularly in the negotiation of Friendship, Commerce and Navigation treaties, and then a little later, of bilateral investment treaties, so-called BITs. And so this gave rise to a big study by OMB, which I think was probably cooked from the beginning.

Q: Often these are, aren't they?

KATZ: Yes, frequently they are. There was a vigorous argument about this and I tried to forestall it. Primarily because I thought we had a unique resource in the State Department, and as I said a highly effective Bureau. I argued with OMB and with Strauss, and then ultimately I went to Vance and Christopher, and got very little support. Vance and Christopher, I might say, were the weakest Secretaries and Deputy Secretaries in my experience. I will say I am not surprised by Mr. Christopher's weak performance as Secretary of State.

Q: The work you've done was pretty much in the negotiating legal field. Both these men earned and still are earning -- they are considered prime negotiators, legal people, and all that. Is there something inherent in that for leadership.

KATZ: No, not at all. In my hierarchy of effective senior government officials, from outside the government, I rank lawyers second after investment bankers. So there's nothing inherent in lawyers. I think it's partly personality, and I will say that Vance probably had stronger personal feelings about policy than did Christopher. But I think his priorities were elsewhere. I think he did not rank economic policy very high. I may have covered earlier a disagreement I had with Vance on export restrictions for a whole series of other policy reasons, including human rights, and Vance just did not give adequate priority to our economic interests. Intellectually he accepted that it was important. It just

didn't rank very high in his order of priority. And with Christopher, even less so. I think Christopher is the kind of lawyer that does what the client wants.

At any event, all of this I think played a role in the decision to remove responsibility from the State Department. The State Department was seen to be unfriendly or unsympathetic to business interests. While I thought that was pretty unfair, given my efforts and that of my Bureau, I will have to admit there were more battles that I lost than I wanted to. I remember taking issue with somebody on the Hill, who made some disparaging remark about the State Department. And the response was, "Oh, we don't mean you, Jules. We mean the rest of the institution." Clearly, there are other policy interests, and we need to work on these to achieve the most sensible outcome, the greatest gain. But in the case of Vance, and in fact the final word in my argument with him, was when he said, "Well, are you saying we should ignore these other interests?" "No, not at all," I replied, "I think it's the essence of public policy that you have conflicting priorities. That you need to deal with them sensibly; that you shouldn't always come out on the other side of our economic interests. You need to look at each question independently, and come out with some common sense view."

The die was cast, however, and Carter made the decision against us. And with Bob Strauss was on the other side of, the battle was probably hopeless. Here was little old me on one side facing Bob Strauss, the ultimate insider, wheeler-dealer. And there were people in the Congress that were involved in this as well. So it all got folded into the legislation, which carried out the Tokyo Round agreements. And incidentally, it passed the Congress by something like 94 to 2 in the Senate, and 398 to 3 in the House. I mean, they were overwhelming votes. This was a great tribute to Bob Strauss. Reorganization was just a small part of that. In any event, the battle was lost.

Now I had already made my decision six month's earlier to leave. In fact, I had retired about four and one half year's earlier. But I was sad to have this happen as I was leaving.

Q: How did it hit this team that you had, when they saw this coming?

KATZ: It was a blow to the morale of the people. They were pretty down about it, and I, in my farewell, tried to reassure them that in the end people were more important than organization. And that what had put the State Department on top was the excellence of its people, and we were always in there first with the best ideas, and that would carry the institution forward. But that was not to be. And then there were some other unfortunate things that happened later on. My successor was Dean Hinton, who was an outstanding, very distinguished foreign service officer, who, I think, held more ambassadorial posts than anyone that I know.

Q: And very difficult ones. He was basically one of the top trouble-shooters, he and Tom Pickering.

KATZ: That's right. Dean did not want to take this job. He didn't want to come back to Washington. His wife was dying of cancer; it was a severe imposition. I said, "Why not just say no?" And he said, "I can't do that, I've never rejected an assignment." And that was Dean's philosophy. He was an Army brat, and you do what you're told, and you go where you are told to go. What happened subsequently was not Dean's fault, but I think that, together with the reorganization contributed to the decline of the Bureau. When the Reagan administration came in I thought there were excellent appointments: Bob Hormats was made Assistant Secretary. He had been my deputy and Mike Rashish, who I mentioned earlier in connection with the creation of STR, was made Under Secretary. And that proved to be an unfortunate combination because there was a clash between them, and there needs to be close cooperation and coordination between those two positions and people. But it became competitive, and the Bureau suffered further.

Subsequently, as I said, there were several commissions that were created to try to invigorate the Economic cone in the State Department, of which the Economic Bureau was the core, but they all failed, and the Bureau and the economic cone continued to run down. Typically these commissions would recommend that we needed to do something about recruitment, that we needed more Ph.D. economists. I always thought that was kind of silly, not because I was not a Pd.D. economist, but we didn't need academics, we needed people with policy instincts and good bureaucratic skills, good negotiating skills, not people who could do economic modeling or econometric analysis.

There were some things that were happening in the world and the economy which impacted the situation. Because the rapidly growing integration of the world economy, the conduct of our foreign economic policy was changing. The linkages were not so much at the State Department or Foreign Office level, as between the Treasuries and the Trade Ministries, and the Agriculture Ministries. As I said earlier, in many cases I had more contact with other members of the U.S. Cabinet than I did with the Secretary of State. So maybe it was time for a change. Maybe the State Department role should have been diminished relative to what it had been before, coming out of World War II and all the efforts to build institutions. Maybe that was appropriate.

Q: You left in 1979 and before returning to government, could you give us an idea of what you were doing in between?

KATZ: When I was contemplating leaving the State Department, I had decided that I intended to work, that I wasn't going to lead a life of leisure. But perhaps for misguided ethical reasons, I decided I would not seek a job while I was still employed in the State Department. So when I left on December 15, 1979, I had no idea what I was going to do. But I was quickly contacted by a number of people. I knew what I didn't want to do. I didn't want to work as a consultant in Washington -- something I later did, and am doing currently -- but I wanted to work for a real company, a real organization. I was contacted by some acquaintances from my commodity days, and I joined a commodity trading company, which was called ACLI, an acronym coming from family names: AC and Leon Israel, whose forefathers were peddlers and importers in Louisiana.

Q: Like Barry Goldwater's grandfather was a peddler.

KATZ: Yes, exactly. They traveled up country in Louisiana, but then became importers and imported primarily coffee. And then two of their sons went to New York, and the family split, and there were two different firms. And then 71 years later the sons of the sons put the firm together again. In any event, it had become a rather sizeable commodity firm, doing primarily merchant trading, that is, acquiring commodities at source, and then selling them to manufacturers or processors, and that included so-called soft commodities like cocoa, coffee, sugar, but also metals and some other agricultural commodities. And also a subsidiary company, that served as brokers in commodity futures. I was invited to join the company in New York, and I agreed to do so, with not a very clear idea of what I was going to do, except what they were really looking for was management; someone with management experience who knew a little bit about their business. They had grown very rapidly and were weak on the management side.

So I went up there, and I was kind of undergoing an introductory phase. I'd been there for about 7 weeks, I guess, when the first crisis hit. The silver crisis. Gold and silver prices had zoomed, and then suddenly collapsed in early 1980, and this caused very considerable problems for this futures trading company. They had some customers who defaulted, who were buying futures on margin and couldn't meet their margin payments and ultimately defaulted, leaving the company out something like \$36 million, which was about a little less than half the net worth of the company. And so I began spending a lot of time with the subsidiary company and then ultimately became Chairman and for about a year the CEO of this company. The company was later acquired by DLJ, Donaldson, Lufkin and Jenrette. I stayed with them for another 4 years as Chairman of this company. I left there in 1985. They had sold off the merchant trading divisions of the company and decided to move our headquarters from White Plains, New York, which was a tolerable existence for having to live in New York, down to lower Manhattan. I decided that was a lifestyle to which I didn't aspire, and would move back to Washington, which I did in early 1985. I then took off for four months and did some assignments for DLJ which had me on a short-term consultancy arrangement, which was part of the termination package.

I was then invited to join some former colleagues in a little consulting group. Henry Owen, David Biltchik and Dale Hathaway, all of whom had been colleagues at one time or another, had a small organization. And I stayed with them for little more than a year, and then had a request to join another consulting company, which was involved in a project in which I was particularly interested, and that was the U.S.-Canada Free Trade Agreement.

This company, called the Government Research Corporation, GRC, had at one time been a subsidiary of The National Journal, or had the same parentage as The National Journal, and then was split off. GRC asked me to come to work on this project. They were doing the policy analysis for a business coalition supporting the U.S.-Canada Free Trade Agreement. That was of considerable interest to me, so I joined them, and did that work.

About the same time, actually it was just a little earlier, in 1986, Clayton Yeutter was appointed as the USTR, succeeding Bill Brock.

I had known Yeutter in the Ford administration, when he was Deputy Special Trade Representative. I also encountered him in my futures trading business, because he had become President of the Chicago Mercantile Exchange. So we had sort of stayed in touch. When he was appointed, he asked me to serve on his transition team in 1986. This was pro bono, not as an employee. And I and two other friends of his looked over the organization, interviewed some of the senior people, and made recommendations to him on organization and people, as well as on some policy issues and helped him with his confirmation testimony. After he took office, he said he would like me to continue to help him on some things. So I was appointed as a consultant to USTR. One of the things I did was to convene a group of people to look at dispute settlement in the GATT, and did a report on that, which formed the basis of U.S. proposals in the Uruguay Round negotiations.

In 1987, the Uruguay Round negotiations started. It was organized with 15 negotiating groups and Yeutter asked me whether I would serve as a chairman of one of the negotiating groups. Most of the chairmen were government officials of various participating countries. But there was at least one other person that I know of, a former Brazilian ambassador, who also served as a chairman in a personal capacity. Well, this interested me, so I readily agreed. So through half of 1987 and 1988, I went to Geneva periodically to chair this group.

In fact, I was one of two chairmen serving as co-chairman of two negotiating groups. For political reasons, they split the group on Dispute Settlement and Functioning of the GATT system. Lecarte of Uruguay and I were named co-chairmen of the two groups. I actually chaired the initial sessions of both negotiating groups. He was at the time Ambassador to Germany, and then had a brief illness. But then he came back and pretty much stayed with Dispute Settlement, and I stayed with the Functioning of the GATT system, which had the amusing acronym of FOGS. I took a lot of ribbing for that.

The FOGS was a rather interesting group, and it actually had one of the first successes in the negotiations. We produced a system for surveillance of country policies. And it was called the Trade Policy Review Mechanism, and countries' policies are, in effect, audited periodically. The four major countries are reviewed every two years. The next eight largest trading countries are reviewed every four years and then the next sixteen every eight years, and then the rest periodically. This was approved at a so-called mid-term review in the negotiations, which was a ministerial meeting held in Montreal at the end of 1988. And it was one of the few solid results to come out of that meeting. I had aggressively pushed the idea, despite resistance of Brazil and India, so I was pretty pleased with that outcome.

Q: Were there any problems about how the review would take place?

KATZ: Oh, yes. It was pretty controversial at the start. In fact, the overall understanding with respect to the negotiations was that the year 1987 would be spent in outlining issues and the presentation of proposals. I kind of swept all of that aside as Chairman. And after the first two meetings, when I had some sense of what people were talking about and what the issues were, and what the interests were, I produced a chairman's paper, a so-called discussion paper. There was opposition from India and Brazil, whose tactics were to slow things down pretty much across the board. After a relatively short period of time, in Geneva negotiating time, I had a paper that was pretty well developed, and aiming toward the mid-term review.

There were some other issues dealt with by the Fogs. One of the issues which concerned the French for a long time, and still does, concerned what they called international economic coherence. This involved the desirability of attempting to coordinate international economic policy, a noble goal which has never been achieved to any great extent.

Q: Is this French Cartesian, or something?

KATZ: What it goes to is really exchange rates. The French for a long, long time, a couple of decades now, have been very concerned about floating exchange rates, although they were one of the first countries to devalue after the end of World War II and to sort of break the unwritten code. But they have been particularly concerned about the weakness of the dollar which puts them at a competitive disadvantage, and also has presented great difficulties even within the European Community, or now European Union, and making that system work. So they wanted to put a lot of emphasis on coordination between the GATT and the IMF and the World Bank, which is a neat idea, except that what it requires international economic coherence. Of course, first of all you need domestic economic coherence, and we among others, have not enjoyed that for some time. So it's just something that hasn't worked.

Another problem is that the GATT was not an institution in the same sense as the World Bank and the IMF. In fact, the GATT was not truly an institution in a legal sense. The GATT was literally an agreement. It was the General Agreement on Tariffs and Trade, and it was served by a secretariat which was on loan from the Interim Committee for the Havana Charter, going back to 1947. It had no legal standing. It was just some jerry-built organization, with a relatively tiny secretariat. There is no voting system in the GATT. Decisions are taken largely by consensus. So to match the GATT with the other institutions, the IMF and the World Bank, didn't quite work. The other thing is that it is a fact of life that trade ministries in virtually all governments are inferior to finance and treasury ministries.

That's just the way it is. Normally the Foreign Minister and the Minister of Finance, or the Minister for the Economy, or whatever he is called in a particular country, takes precedence over the Minister of Commerce or the Minister of Trade. And so, it was not,

to borrow a phrase, a level playing field internationally with respect to these financial institutions and the GATT. So that was an issue that we had to kind of finesse.

The other thing, I had tried also to create something which was in effect an executive committee for the GATT. The GATT operated through a Council, which was theoretically all of the members, all of the contracting parties were members of the Council, although somewhere between 40 and 60 showed up at any one time. That was a rather unwieldy decision making body. The ministerial meetings were held very rarely. But there was great resistance to that idea, primarily again, from Brazil and India.

Q: What was motivating Brazil and India to resist and slow down?

KATZ: Well, if I had to put a word on it, I'd say protectionism. I think two things: first of all, domestic protectionism, but secondly, they wanted to maintain the distinction between developed and developing countries. And they knew that the result of this negotiation would be to put a lot of pressure on particularly advanced developing countries to open their economies. They were just laggards in this international sweeping movement to open markets and open economies. At any event, this idea of an executive committee, or small policy group as I called it -- I tried to avoid giving it a title -- was something that really stuck in their craw. They equated it to the Security Council in the U.N., with the large powers having a veto, and they said no security council. I said it was not a security council - it has no executive powers. It is an aid to the director general. So that didn't wash, but the TPRM, Trade Policy Review Mechanism, did survive, and that was a solid achievement.

Q: On your work with this Government Research Corporation, I note that you were working for the Canada-U.S. Free Trade Agreement. You're sitting in a different place now. And Canada has always, as we've talked about before, its own motivations and all that. Did you find sitting outside the government working for something like this; how did you find dealing with the Canadian-American relations?

KATZ: Well, it was frustrating. Working in the government is frequently frustrating, but being on the outside is even more frustrating in a sense, because you can't really control or influence events or outcomes. My role was primarily to follow the negotiations and the issues, and to keep this business coalition informed of what was going on, but not to interfere in the negotiations. That is, the business group had decided early on that it wanted to be supporters, and was interested, obviously, in the outcome of particular issues, but did not want to be a negotiating party. And given my proclivities for activism, I had to restrain myself. I would express opinions, but mostly privately, and didn't really try to influence the content of the negotiations.

Q: In a way, was this protectionists versus free traders, or nationalists versus internationalists? Were these the motivations in the negotiations?

KATZ: No. Not at all. I think it was somewhat different. There was general agreement, and fairly wide support for free trade with Canada. But there were specific issues which derived from national approaches. For example, we frequently charged that the Canadians had a propensity to subsidize their industries. In truth, we both subsidized, but we did it differently. The Canadians used the federal budget to a greater extent than we did, and we did a lot more through states, things like tax forgiveness, or building infrastructure in order to attract industry.

There were differences on how to approach anti-dumping, that was a big issue in the negotiation. A major issue with Canada is culture, the concern about maintaining a separate identity. In fact, before the negotiations ever started. Right on the eve of the negotiations, there was a dinner in Washington attended by a lot of Canadian officials and former Canadian officials, people I had known. Clayton Yeutter gave a speech and he was asked a question about how are you going to handle the cultural issue. And his response was "I don't see this as a problem at all. We have great respect for Canadian culture; my wife and I honeymooned at Niagara Falls." I was sitting at the table with Jake Warren, who was a former Deputy Minister in several departments in the Canadian government, and the former Ambassador to the United States. He threw up his hands and he said, "My God, you Americans will just never understand us." And sure enough, the next day, there were screaming headlines in Canada, "Yeutter Understands Canadian Culture: Niagara Falls."

There were other issues, such as the old auto agreement. The U.S. team I thought somewhat foolishly started out saying the auto agreement had to go as part of the free trade agreement. That produced a big flap. And I thought it was silly because it was not an issue worth talking about. The provisions of the auto agreement people were concerned about no longer had much economic effect, particularly with an overall free trade agreement. The issue was form over substance.

There were also problems in negotiating style. The Canadian negotiator was Simon Reisman, who as I related earlier was rather formidable, very dynamic. As he aged he became more convinced of his positions, and on the other side, Peter Murphy, U.S. negotiator, was a lot less senior in stature. He had been a Deputy USTR Ambassador in Geneva, but that wasn't so much the problem. His style was just very different. He had a dour personality and was very defensive in his approach. One of his favorite expressions was that "We are not demandeur in this negotiation." In other words, all of the proposals had to come from the Canadian side, which kind of drove the Canadians crazy. Simon passed a story around in Canada, which is I think untrue, and that is that I was to have been the negotiator, and if he and I had been on opposite sides it would have been a different negotiation. Well, I don't think the story was true. I was not in the government, I had no intention of returning to the government, I was very happy to be on the outside.

In any case, the outcome overall was an outstanding achievement. There were some things I wish had come out differently, but that would be true of any negotiation and I'm not sure that had I been doing it the outcome would have been very different. But then

when the negotiations were concluded, I produced an analysis which was used by the coalition, and produced some other materials that was used in the lobbying effort.

The result of all of this work kind of got me back into the trade policy arena.

Q: Couldn't get away from the tar baby...

KATZ: So to speak. I was identified in town with the subject. Then in early 1989, one afternoon, I received a call from Carla Hills, who I never actually knew. I was in the Roosevelt Room with her on more than one occasion in the Ford administration - she was Secretary of Housing. But I had no contact with her. I had known her husband, who was White House Counsel for a time, and had one brief meeting with him after we had both departed from the Government. He had called me about an issue in 1980 or 1981. Anyway, she called, and said "Would you mind coming around to talk to me about trade policy?" And so I went over to her office. She was in a law firm at the time. I went to visit her, and we talked for about a half an hour about various issues, the negotiations which were under way in the Uruguay Round. And then she said, "Well, I won't beat around the bush, will you be my Deputy?" And I said, "I don't know, let me think about it. It's not something I had planned on."

The offer came at a moment that left me somewhat vulnerable, because my company, GRC, actually well the parent of my company had been acquired by a British company, which also owned another company in Washington called Hill and Knowlton. They decided to merge GRC and Hill and Knowlton, and I had pretty well decided that I would not join that merged company. They had made a seemingly extravagant offer to me to assume the position of worldwide practice director for international trade for Hill and Knowlton, which had something like 28 international offices, and offices throughout the United States. It sounded wonderful, but as I spoke with various people what I discovered was that there was not a whole lot of substance to this; that all of the people that worked there were really kind of independent entrepreneurs, there was no real organization, everybody had his own accounts. I recommended someone else for the job, and he did not hold me responsible, but he discovered after about a year what I had discovered in a matter of about 10 days, and subsequently left.

So I was sort of at loose ends at the time. After consulting with my wife I decided to accept Carla Hills's offer. One of the other reasons I decided to do it was that USTR had developed into a very fine organization. Very small, but very professional. But there was no one at a senior level with experience that could move into this position. Mike Smith, who has held this position, had retired six or eight months earlier. There was no one there in a senior position who could take this on, and I just thought there was a need. Anyway, I thought it might be fun to do this for two years. The assumption was that the negotiations would end at the end of 1990.

Q: What negotiations are we talking about?

KATZ: This is the Uruguay Round trade negotiations. Well, it actually turned out to be more than I bargained for, because the negotiations filled the four years of our term. We brought them almost to a conclusion, but we could never quite conclude them. That was done a year after the Clinton administration came into office, although most of the issues had already been decided. There was even a text of an agreement. But the other thing that happened, of course, was the NAFTA negotiations.

Q: NAFTA being ...

KATZ: The North American Free Trade Agreement. I think we ought to divide it at this point into the two major negotiations, and take them separately.

Q: Before we do that, I wonder if you could talk -- Carla Hills is one of the dynamic people in Washington. Could you discuss your experience with her as how she ran things; her method of operation?

KATZ: Well, as I said, I had not really known her earlier, except by reputation. She was a very bright, able woman, who had a career as a lawyer, as well as a government official. She had been a U.S. Attorney, and then Assistant Attorney General in the Ford Administration, and then became Secretary of Housing and then back into a law practice. Like a lot of lawyers, she's very hands on. Delegating does not come easy. At USTR, it was necessary that she do so. She could not handle all of the issues, so she had to delegate.

There were two Deputies in Washington, one in Geneva. In addition to the Uruguay Round negotiations, there were a host of other issues the USTR had to deal with. Japan was a major preoccupation, as well as a host of other bilateral negotiations with other countries. Intellectual property negotiations, with Korea, Brazil, Argentina, Chile, Mexico. Trade barrier negotiations with Korea, Brazil, India and others. Bilateral issues with the European Community -- so there were a great many things. The way we divided up was that I would have responsibility for multilateral affairs, multilateral negotiations, Western Hemisphere and Europe. My colleague Linn Williams had responsibility for bilateral issues with Asia, which involved mostly Japan, but Korea to some extent, and China, which was also a major issue. There were a number of major issues with China. And there were some multilateral issues, primarily of a sectoral character, such as international steel agreement, international shipping agreement, for which Linn had primary responsibility. But the relationship evolved. Without having been named as such, I served in fact as the Senior Deputy, and my working relationship with Carla became very good.

Q: From what you saw, much of this was, of course, negotiating. What was her style of negotiation. Was it different from your's, would you say?

KATZ: Yes. She tends to be very intense, with very thorough preparation. She will study briefing books, underline just about every line. There was an experience which was kind of illustrative, and somewhat amusing. From time to time there would be a meeting of a

number of trade ministers, somewhere between 15 and 20 ministers. And we met in Mexico, at Puerto Vallarta. We met there for three days, and following that meeting, we had to meet with the Ways and Means Committee at a retreat in North Carolina. The only fast way to get from there was on a chartered jet. We had an Air Force executive jet take us from Puerto Vallarta to Winston-Salem. And also appearing at this retreat, this Ways and Means Committee retreat, was the European Commissioner for Trade, Franz Andriessen. So we were crowded in this little jet. We boarded the aircraft at about 6 or 7 o'clock at night, and Andriessen and his wife, sitting in the back, and then Carla and myself, and two other USTR people in very cramped quarters. We had a picnic supper and then immediately Carla whipped out the briefing book for the meeting with the Ways and Means Committee and the other USTR people did as well, going through the briefing book and answering her questions. And Mrs. Andriessen, sitting in the back, just couldn't believe this. She said, "My God, I don't understand you people. You've just come from a meeting, don't you ever stop?" And the answer to that was no. Mrs. Andriessen's husband, Franz was, of course, known for his lack of preparation.

And Carla generally worked 6 and 7 days a week. I had developed a practice in my last years at the State Department that as a general rule I would only work five days. I would work 60 hours a week, but spread over 5 days, and would try to leave myself two days for regeneration. And I pretty much held to that. I would come in on Saturdays only if there was a meeting that I had to attend. But generally I tried to stay out of the office. But she was just in there all the time.

In terms of negotiating style, she was extremely intense. She came across as being very hard. She got a lot of bad press initially. In fact, we used to tease her, we'd call her the "wicked witch of the West." And she was unrelenting. Some people took it badly, but in time she was greatly admired for her abilities and her intellect, so she was a winner, and when people became accustomed to her style, they accepted her as an important player and one of the most effective members of the Bush Cabinet.

Q: It just occurred to me, did you ever play good-cop/bad-cop. In other words, you would say, "Well, if we can't reach an agreement on this, I'll have to sic Carla on you."

KATZ: Well, no, not consciously. It wasn't that so much. Of course, negotiations would take place at different levels. But, frequently, we would sit there together. She, despite being very hands-on, was very generous and sharing of both credit and blame. But, sitting in a meeting, she would turn to me and, if I had something to say, I could speak up.

Q: Which one negotiation do you want to do first?

KATZ: Let's do the Uruguay Round. This was a negotiation of enormous scope and complexity. There were a great many issues and over 100 countries participating. Many of the issues were novel in the sense that they had not confronted multilaterally before. Services were extremely difficult because that was a new issue and there was a problem

in conceptualizing what this agreement would look like. No one knew what trade in services...

Q: Services as defined, meant what?

KATZ: Well, it is illustrated by things such as lawyering, accountancy, engineering, advertising, banking, transportation, telecommunications, etc. There is no problem with dealing with an agreement on goods. You lower your tariffs by x percent the following list of goods, and I'll lower my tariffs by x percent on the following list of goods. And you can put monetary value on the results. But the problem in services involved mostly regulation, licensing requirements, all kinds of barriers.

Q: You're up against guilds, almost.

KATZ: Yes exactly. Many of the restrictions in fact had their origin in guilds. So, it was extremely difficult first to conceptualize how you would deal with things that were hard to quantify. How do you trade-off lowering barriers in financial services for telecommunications? And then there was the problem of these deep seated differences in practice and protectionism. Other countries didn't want American insurance companies coming there. Financial services, of course was another big issue. We were very resistant to including maritime services, and aviation, both with politically potent supporters in the Congress. So there was kind of a broad, overarching problem of how to construct the agreement and then a great many problems on specific service areas.

The other problem was that developing countries said, well, if we're going to talk about services, then we must talk about labor services; labor as a service. And they wanted to include that. It was also an issue that came up in the NAFTA negotiations, and I said to the Mexicans, "when you're talking about labor services, you're talking about more than just trade. You're getting into things like social policies, social security, unemployment, housing -- you're getting far beyond trade."

The overriding issue that kept the negotiations going so long was the issue of agriculture. It is also the issue on which I spent the most time. I think it may be useful, first, to go back a bit, and put it in a historical perspective. Agriculture was a major issue in this negotiation from the very beginning, and it was an major issue in the sense of the need for reform of the agricultural trading rules. And that became the primary objective of the United States, as well as a number of other countries.

It is somewhat ironic, that reform became such an important issue for the U.S. because it was the U.S. that was largely responsible for the poor state of agriculture rules in the first place. The U.S., with some other countries, insisted on carving out exceptions for agriculture at the time the GATT was negotiated in 1947. So that whereas subsidies, export subsidies in particular, were generally condemned in the GATT, there was an exception for agriculture and for primary products. Countries like Australia wanted exceptions for things like minerals. Similarly, import quotas, quantitative restrictions, are generally prohibited. Again, there was an exception for agriculture.

By the late 1950s, at the time of the so-called Dillon Round, named after Douglas Dillon, who had been Under Secretary of State for Economic Affairs, later Under Secretary, and then Secretary of the Treasury, there was growing concern about agricultural policy, because the European Common Market was beginning to take form, and in particular, a common agricultural policy, the CAP, was being developed, which was highly protectionist. So there were negotiations in 1960 and 1961, and interestingly, one of the things that came out of that was a so-called zero binding on soybeans, that is, the EC agreed that their duty on soybeans would be at zero. In GATT parlance, those are called bindings. That turned out to be an enormously valuable concession for the United States, both for the amount of trade that we conducted in soybeans over the course of a couple of decades, but also because of the leverage it gave us in later negotiations.

The Kennedy Round came immediately after that, in 1963, and already there were serious problems in the negotiations. There was a major fracas over the EC's variable levy, which was a kind of infernal machine. Instead of having a fixed tariff, the tariff was set almost on a daily basis to equate to the domestic price. So it could be almost an infinite trade barrier. And then to add insult to injury, the proceeds of that variable levy were used to finance export subsidies. So we got it coming and going, as it were. That issue was never resolved in the Kennedy Round.

There were some agreements reached, such as an international grains agreement, primarily a price agreement, that was signed which fell apart even before it came into existence. As all cartels normally fail over time, this one failed even before its time. The thieves fell out, as it were, as people began to cheat on price differentials and transportation differentials. There were an infinite numbers of ways to cheat, and that was done, by all parties incidentally. The U.S. complained the loudest, but the even U.S. was not without guilt.

Next came the Tokyo Round negotiations, and now we were beginning to get serious, and said this time we were really going to fix agriculture. And again, there were a series of agreements reached. We had somewhat soured by that time, on commodity agreements. The Europeans and other countries thought that was the answer to agriculture problems, since if you couldn't have free markets in agriculture, you ought to organize them. You ought to make them more rational than they are. The disillusionment with trying to fix markets hadn't spread throughout the world quite yet. So what we ended up with in the Tokyo Round was a series of commodity "understandings." They were not full-blown commodity agreements. There was an agreement on dairy, for example, that the U.S. opted out of. But there was some general language on agricultural subsidies which proved to be ineffective.

And then there was something called a "cathedral." It was an overarching statement of principles, and in negotiating parlance, it would have been called a "chapeau" but when I came up with this idea in a meeting in Copenhagen in 1978, I believe, I said what we needed was something to cover these individual agreements -- we had to have some

overarching principles on agricultural trade. It was just too chaotic and merely having a series of commodity understandings or arrangements wasn't sufficient, and to demonstrate the idea of this overarching agreement, I brought my hands together. The Director General for Agriculture in Europe, Louis Rabot, who was a wonderful man, now deceased, after someone had said chapeau, He said, "No, a cathedral!" It was pretty much a motherhood statement, and in the end never really accomplished much. It proved to be another disappointment.

So by the time the Uruguay Round came along in the '80s, the U.S. position was that a major reform of agricultural rules was necessary. I was out of government at that point, but the principal people who were involved, namely Clayton Yeutter, and the Secretary of Agriculture, Dick Lyng, both had very strong agricultural backgrounds. Yeutter was the USTR at that point, and Lyng both had been in the Department of Agriculture in the Nixon administration. Lyng also had been Secretary of Agriculture in California, and very close to Governor Reagan and President Reagan. So, agriculture was really, I would say, an overriding objective of the U.S. at that point, along with certain other things, such as the new issues, services and intellectual property. In trying to get the negotiation organized, agriculture was a major issue from the very beginning, and it almost resulted in preventing the negotiations from even being initiated at Punta del Este. It was argued vociferously and then finally some form of words, a declaration, was negotiated which permitted the negotiations to get under way.

In mid-1988, the Reagan Administration made a very dramatic proposal -- that all agricultural subsidies be eliminated by the end of the century. The Europeans thought that the proposal was outrageous, nothing more than a grandstand play. What it did, however, was to focus the issue in a very effective way. Work done in the OECD to estimate the cost of government subsidies showed more than \$100 billion dollars was being spent in the world. The EC and the U.S. at the time accounted for well more than half of the total.

The proposal remained very controversial even as the U.S. began to modify it, stretching out the phase out period. Some thought that the proposal set back the negotiations, because European farmers thought it too threatening.

Then at the end of 1988, at the so-called mid-term review, agriculture caused a real crisis. In one sense, these negotiations were surrounded by a certain amount of naivete, in that here we were taking on extremely difficult issues, and novel issues never before negotiated internationally, such as services, or negotiated in connection with trade agreements, such as intellectual property. But to boot, Yeutter decided that we were going to do all of this in four years. The two previous negotiations went for five years. And then the idea was that half way through there would be what turned out not only a mid-term review, but it was even called an early harvest. The idea was that agreements would be reached half-way through and put in the bank, as it were, and then to go on and negotiate the rest of them. As it turned out, the only agreement reached was the Trade Policy Review Mechanism I had negotiated through my FOGS group.

But Yeutter was determined to get something on agriculture, negotiations on which hadn't really gotten under way. My efforts to get agreements in the FOGS group, had met a lot of resistance from a number of countries, saying, hey, you're not supposed to be doing this in the first two years; you're supposed to just be receiving proposals and discussing proposals, and not driving for agreement. But in agriculture, nothing really had been accomplished. So when they went to Montreal, agriculture became a major stumbling block. They couldn't even agree on what would be negotiated. So it almost resulted in a collapse of the negotiations.

Finally the other issues in the negotiations were dealt with, and agriculture was set aside. And then in March there was a ministerial meeting in Geneva, although we were not represented at the ministerial level. A change in the administration had taken place. The Bush administration had come in and Carla Hills was now the USTR. I had not yet taken office, although I was on board as a consultant. I was caught up in the ugly appointive process, which has gotten worse with each new Administration. This story is worth a slight digression.

Carla first asked me to join her in early January. I did not take office until late-June more than five months later. In retrospect, I thought about the pathology of the Presidential appointment process. The first thing that happens is the press leak. In my case this came in early February. Next is the White House announcement of the intention of the President to nominate. This came in early March. In the intervening period there was the filling out of endless forms, life history and minute financial disclosure, along with the FBI investigation. Following the White House announcement, I took on the status of a consultant, permitting me to sit in on meetings, read papers and receive briefings, but I could not take part in any policy making decisions. The next step was the submission of my nomination to the Senate, but this was held up over an argument with one of the White House lawyers who was insisting that I dispose of a small financial holding that he argued could present a conflict. His position was ridiculous and I got my back up and resisted. Finally I prevailed, the nomination went forward in early June, I was quickly confirmed by the Senate (unanimously) and I took the oath of office on June 26.

The process is not something I would want to repeat or to recommend to friends. For much of the five month period I was largely immobilized. I sat in my office but could not do anything. At one point I became so frustrated, I drafted a letter to Carla, but did not send, asking her to withdraw my nomination. It was a day or so later when the nomination was announced. This is just a side light on one of the downsides of public service.

To get back to the story of the agricultural negotiations, an understanding was reached at the March 1989 meeting on how to proceed to negotiate the agricultural issues. We were represented there by Warren Lavorel, who was our coordinator for the Uruguay Round, with the rank of Ambassador. A declaration was agreed upon, which established the terms of reference for the negotiations, and the issues that would be covered, including domestic support or domestic subsidies, export subsidies, market access or the bringing down of trade barriers, and then a number of other agricultural rules. So presumably we

were on our way. But then nothing much happened through the rest of 1989. We just couldn't really get the negotiations moving.

Beginning in 1990, we began getting a little concerned about the delay, because the entire negotiation was scheduled to end in December of 1990. So, starting in January we had a series of meetings between Carla Hills and Franz Andriessen, who was the Commissioner with responsibility for foreign affairs and trade negotiations within his ambit. He had previously been the Commissioner for Agriculture, which seemed to be an useful background, and therefore, one would have thought he would have been exactly the right person to be negotiating with. But he turned out to be a very disappointing counterpart. For one thing, he really did not want to deal with agriculture. The new Commissioner for Agriculture, Ray McSharry, was a black-headed Irishman, extremely combative, very determined, very smart, although not polished. Certainly not what you would expect in a European counterpart, he was very rough around the edges. And it quickly developed that he and Andriessen didn't get along very well.

Andriessen also really saw himself as the Foreign Minister of the European Community, and so he had a lot of other interests. Of course, Eastern Europe, and the Soviet Union were beginning to crumble, and he spent a lot of time there. He went on trips to the Far East. It turned out, until very late in the negotiations, in October of 1992, that he was almost never prepared for a meeting. And where Carla Hills was over prepared -- she would rehearse and rehearse, and go through briefing books, underlining, highlighting every line, Andriessen came to meetings, and sort of had a blank stare on his face.

Well, starting in January of 1990, we met with him, I think, every month, from then until December, except perhaps, for the month of August. For one reason or another, either we had bilateral consultations, or we had Quad meetings. That is, meetings of the big four meeting, US, EC, Canada and Japan. Or there were other bilateral U.S.-EC meetings. But we had occasion to meet him once a month, and his typical line was, "Well, we can't meet here," i.e., Washington, Brussels, Canada, or Mexico, or wherever it was -- "we had to negotiate in Geneva." The other line, and where the truth lay is "we can't discuss this now," because the Community was not ready. The Community did not have a mandate on agriculture.

So this became an enormously frustrating experience. One of the other things that characterized this negotiation was that the operation of the common agricultural policy requires price decisions in the Spring. They establish their price objectives and issue regulations. This target date is sometime around late May, in order to give farmers notice so that they know what they may plant. But it generally extends into June and sometimes in crisis years into July. So every year, we were confronted with this problem. Well, the Community couldn't talk throughout the Spring, because they were doing their price negotiations. Then came the summer holidays, which ran from the last week of July through the first week of September. Thus, negotiations tended to be compressed in the last three months of the year.

The other thing that was happening was that the problem of agriculture was becoming much more difficult in Europe and they were growing more and more commodities, foodstuffs mostly, to the point where they couldn't eat it, they couldn't consume it, they couldn't even store it. In fact, they were storing meat in lockers in Hungary because they had run out of storage space in the Community itself. They had huge export subsidies, and that was beginning to run into greater and greater resistance, to say nothing of the growing financial burden.

So it was clear that there was a lot of tension in the Community. Some of this had not become as apparent then as it did later. In any event, we went through half of 1990, with nothing having happened. In July of 1990, we decided that agriculture should be a major issue at the G-7 Economic Summit, which was held in Houston. Typically, USTR didn't get invited to summit meetings. The Secretary of State and the Secretary of the Treasury and their counterparts were the principal ministers in attendance. So there was no room at the table for the USTR or other trade ministers. Bob Strauss, in the '70s, insisted on going to the London summit, and when Carter said, gee I'm sorry, this is Cy Vance and Mike Blumenthal's thing, Strauss said, "Well, Cy can sit out." He insisted on going and he did get to go. And in fact, I think he probably threatened to resign and Carter yielded. But this was a problem over the years.

In 1990, we decided to make this an issue. And still Carla Hills was not included, but she was asked to go to Houston, and Yeutter as well. I went along with Carla. So we were in Houston, but we were not part of the proceedings. In fact, we didn't even know what we were doing there. We were in a hotel, remote from the proceedings. Our press officer then found that there was a huge press center, where there was a lot of activity going on. So we went over there, got credentials to permit us to come in there, and we hung out at the White House Press Office. And that was a wonderful place, because there was a tremendous amount of activity going on there, and we picked up little rumors, although nothing having to do with our issue. There were also newspapers from all over the world and fabulous free eating facilities.

Late one morning, I was wandering around this cavernous convention center and someone came running after me, saying "Carla needs to see you right away." I went rushing up to the office and was told that Margaret Thatcher, Prime Minister of Great Britain, had just presented some kind of paper to Bush. So we were on the phone with President Bush's entourage. We had it read to us on the phone, and it was terrible. And they said, "What's wrong with it?" We tried to explain it, and they said we had better get over there right away. And the next question was, how could we get over there and how do we get in because we were not credentialed? Well, after a lot of adventure, we finally requisitioned some cars from the Navy which was providing transportation and we got over there.

By the time we got there, the Heads of Government were at lunch, and we were going over the statement, trying to repair it, and it was pretty awful. It turned out, the President had looked at it, and it seemed O.K. to him, so when Thatcher had presented it, he apparently nodded assent. But he came out, and he heard that we were unhappy with it.

So he said, "Well, what's wrong with it?" We explained, and he wasn't terribly pleased with that, but being a good soldier, he went back into the meeting and tried to undo it. Well, the arrangements are that very few people are in the room. The Heads of Government, Ministers, and a note taker. And they had a new system there, a computer that you could write on, and then it gets transmitted to another computer, so we had a monitor outside the meeting room, watching this scrawl coming up. Dick McCormack, who was the Under Secretary of State for Economic Affairs, was the Sherpa, the carrier for those that go up to the summit -- basically the U.S. coordinator, and also the scribe for the meeting. So we saw this coming over, and people crowding around, saying, "What did he say? Oh my God!"

Well, in any event, Bush saved the day, and it was then left to officials to deal within the communique. And so that night, I joined the drafters of the communique and we had a terrible time trying to negotiate a statement with the Europeans. The sense of it, the objective, was to provide some agreement which would permit the negotiations to get off of dead center. And finally, at about 4 in the morning, we reached agreement, and we thought we had achieved a breakthrough. And we so characterized it to the press, and to the world. There was a funny incident at the press conference, the President's press conference. The Chairman of the Agriculture Negotiating Group was a former Dutch civil servant, Art de Zeeuw and it was a rather difficult pronunciation, (de Zayoo) and his name got bandied about. Now he was important, because before the Summit, he had written a Chairman's proposal, which we thought was pretty good, and it was blasted by the Community, even though of course he was Dutch, and there was a lot of discussion of the de Zeeuw Report, and when in the press conference President Bush referred to the his report and the communique was intended to give some support to this, he referred to the De Jew Report, and one of my colleagues sitting next to me said, "He ain't no Jew, he's Catholic." But anyway, we got past this, and now we are in July.

Q: I want to ask a question. Here you have this economic summit, and only the principals are there.

KATZ: Well, plus the Secretary of State and the Secretary of Treasury.

Q: Yes. But the Prime Minister of Great Britain presents a proposal at a meeting. They are all sitting around. Nobody's vetted this before. Was this a fast shuffle, was this just poorly drafted? It sounds kind of dangerous, because anything on the economic side is out of the range of experience of most heads of state. These things can get extremely technical. What a hell of a way to run business; was this a maneuver to put something over, or what was it?

KATZ: Well, you're absolutely right. It was very poor procedure. The Brits did try to pull a fast one. It's not just that the issue is technical. As you know, in negotiations words tend to have special meaning. There are terms of art which are not terms that a layman would understand. Even people who were fairly sophisticated in economic policy issues might

miss the nuances of a particular issue. Of course, Jim Baker was there, and Nick Brady, the Secretary of the Treasury, but they were not sensitive to the issues at hand.

Q: And Jim Baker had been Secretary of the Treasury.

KATZ: Yes, and Jim was fairly knowledgeable, but even he didn't know the nuances. Of course, this was not Thatcher's own idea, it was her officials who put her up to it. I think it was probably a fairly genuine attempt to try to overcome the issues, but I think even these British officials were somewhat not deeply schooled in the issues and the importance of them. In any event, it was a very bad thing to do, and it was unhelpful.

But, anyway, having this summit communique, which we thought was a breakthrough, we then had Arthur Dunkel, the Director General of the GATT, convene a small meeting in Geneva, late in July, actually at a little house that was Art de Zeeuw's house outside of Geneva. It was his pied-a-terre when he negotiated there. And we were there, we being Dick Crowder, the Under Secretary of Agriculture and me. We had become a team in the agriculture group. And then we were expecting Guy Legras, who was the Director General for Agriculture in the Commission. The idea was we were going to meet at three o'clock and then go through dinner and try to get the negotiation moving. And there were some other Community officials there, Rolf Moeller, who worked for Legras. They came from DG6, the Directorate General for Agriculture. DG1, the Directorate for Foreign Affairs, which had overall negotiating responsibility, was represented by Hugo Paeman. Legras arrived and promptly announced that he had to catch a plane by five o'clock. Now here Crowder and I had flown all the way from the States for this meeting, and were greeted by Legras saying he only had two hours to spend. I was so angry I almost walked out at that point. But we began to spar immediately.

I neglected to say that Peter Field, from Australia was also there, and Field tended to represent the Cairns Group. The Cairns Group were a group of 13 agricultural exporting nations, and were an important factor in the negotiations because they were holding up on other issues important, such as services and intellectual property. So Field was an important player in this as well.

Obviously this meeting got nowhere, and so we lost the summer, and then by October not very much was happening. Finally, and here we are moving toward the conclusion of the negotiations. Other issues in the negotiation were also languishing. There was very little progress being made on services. Virtually nothing on market access, which had to do with tariffs and non-tariff barriers. We came into November, and there was a meeting organized in Geneva, a kind of a rump session of trade ministers. There were some 20-25 trade ministers from various countries, the major countries all being there, to discuss what do we do? Do we go ahead with the concluding meeting scheduled for Brussels in December, or do we call it off? I argued strongly, and Carla Hills agreed, that we should call off the meeting, because we thought that it would be a disaster. There was no way we could conclude the negotiations, because we hadn't even received a proposal from the EC. We had offered in a proposal on agriculture, as had other countries, but nothing had come

from the Community, and we had not an hour of serious negotiation, except on the shape of the negotiations, what the issues would be.

We were joined by the Australians in urging that the Brussels meeting be called off. The Canadians, on the other hand, said we had to go through with the meeting. And they were pressed very hard. John Crosby, who was their Minister of Trade, insisted that we go ahead and meet. And finally, he won the day, because no one had the guts, to actually pull the plug on the concluding conference.

I was trying to recall the story previously, but I think I remember it now. At a luncheon at the Canadian Ambassador's residence, this issue was discussed in detail, and the Australian Minister, Neil Blewit, argued vociferously that the negotiations should be postponed. At one point he said, "I hate to say this at this dinner table, but I'm not one for necrophilia. This negotiation is in a rotten dirty, stinking, corpse, and the sooner we recognize that, the better." And John Crosby, who had in a very droll wit, said, "Well, we have in a song in Newfoundland," from which he hailed, "and it goes, she may be dead, but she won't lie down." And that became the metaphor for the negotiations, because the negotiations frequently were stalled and in crisis, and seemed to be hopelessly deadlocked. But it just wouldn't lie down.

At any event, we went to the conference in Brussels. Of course, the other thing that would have been useful, I thought, was the symbolism of calling off this conference that had been arranged by the Community. It was on their turf. It would have had enormous shock value, I thought, in terms of catalyzing the Community position. But in any event, we went there, and of course it failed. There were brief moments of hope. The way that meeting was organized was that various ministers were given responsibility for groups of subjects, not necessarily the specific negotiating groups. But in any event, agriculture was given to the Swedish Minister of Agriculture, Mats Helstrom. And he was very determined, and offered a proposal that we had problems with; others had problems with it as well. He then offered another proposal which didn't fare any better.

Finally by mid-week several people said, "Look, forget it. This isn't going anywhere." The Community was largely silent. They had a very defensive position. The whole thing in retrospect was absolutely ludicrous because here we were at the final meeting, but we hadn't started negotiating. Well, the notion was that if we could get some breakthroughs there, of course the drafting could then go on for another several months, and we could clean it up. But it never really had a chance.

One of the things that provided a little bit of hope, was that there was an assumption that at the critical moment the Germans would come around and tilt the argument within the Community in favor of a solution or a viable position. And the assumption was that Helmut Kohl was indebted to George Bush, because of Bush's support of reunification of Germany. But there was a German election on the Sunday preceding the opening of the negotiations. The negotiations started on Monday, and on Sunday were the German elections. And once those elections were out of the way, we assumed that Kohl would

then be free to take the kind of position we hoped he would. While the French were a major problem in respect of agriculture, the Germans were equally as bad. Their Minister of Agriculture, a bullet-headed Bavarian, named Kiechle, who at one point in a meeting with us, said "You know, I think you're absolutely right. There should be no export subsidies. In fact, we shouldn't even be exporting agricultural products from Germany. Of course, we shouldn't import either, we should be self-sufficient." He was a complete Neanderthal.

Our reliance on Kohl turned out to be what I regarded as one of the major intelligence failures of the negotiations. We did not understand what was driving Helmut Kohl. We did not understand that his relationship with Mitterrand, President of France, had priority over his relationship with George Bush and the United States. And it's not that Kohl didn't try to be helpful. He did, on a number of occasions try to nudge Mitterrand along, but this was not the most important issue for him. So, on Monday morning, nothing had really changed. And nothing changed in the course of the week. In fact, Kohl had a scheduled meeting with Mitterrand, I think on Tuesday of that week, and we anxiously awaited the results of that. There was not even any mention of the negotiations in their press statement.

Finally, on Thursday morning, Helstrom came up with in a new proposal, and I need to describe a little bit of the substance of the negotiation. As I said, there were three major issues. One was internal support, or internal subsidies. The second was export subsidies. And the third was market access, or the import regime. In 1987, early in the negotiation, right after the negotiation started, I believe it was in June of 1987, President Reagan made a proposal, which was very dramatic, and that was for the complete elimination by the end of the century of all barriers and all distortions to agricultural production and trade. In other words, elimination of all subsidies and all import barriers. Basically free trade and agriculture. This was a startling proposal. I thought it was wonderful. I was outside the government then.

A number of people thought it was unrealistic, overly ambitious, and there was an argument that still goes on to some extent, as to whether that proposal was helpful or not. I thought it was, because I thought it set a goal. It set a target. And coming today, it probably still would be dramatic, but it would not be regarded as so unrealistic. But in 1987, the Soviet Union had not crumbled, free trade agreements hadn't spread through the world, the move toward deregulation and so forth hadn't really taken off. But, in any event, the Community used that as a kind of reason to say well, what you've done is you've terrified our farmers and you've made things much more difficult for us. In 1990, in trying to get the negotiations cut back, we said, well, why don't we agree to a 70% reduction over 10 years. in other words, we stretched out the Reagan proposal.

Q: Give a little time to deterrify the farmers.

KATZ: Yes, right. It was obviously a negotiating position. That was on the table, but there was no real response from the EC. The Helstrom proposal then was to reduce our

proposal by cutting it in half. He said, let's do 35% in five years across the board. That is, internal support, export subsidies, and import barriers. We really did not embrace the idea. We said, well, if the Community prepared to consider it, we would see that as a basis for negotiation. But what is the Community's view? We had an initial meeting, and then the Community had to go off and consult. So the EC Ministerial Council met in Brussels that evening (Thursday), and we had a meeting scheduled for 8 PM. The Community as usual was late. One of the officials coming through the door gave in a negative sign, but we went into the meeting, and McSharry, the Commissioner of Agriculture, represented the EC. Clayton Yeutter was there, and I was with Clayton jointly representing the U.S. There must have been some 15, maybe 20 countries represented in this group, Helstrom chairing the overall session, the GATT Director General, Dunkel sitting by his side.

McSharry then spoke. He seemed to be accepting some of the Helstrom proposal in a somewhat ambiguous statement, but it was not a rejection. It was a rather artful performance in a way, but then the discussion started going around the table. We stayed pretty much silent. People began reacting. Then the Japanese spoke up. And the Japanese said they couldn't accept the proposal at all. That produced a lot of strong criticism of the Japanese. The Koreans made in a statement which was somewhat negative, but unintelligible, as I recall. But then people began asking McSharry just what did he mean, was he really prepared to accept a 36% reduction in export subsidies. He said, "Well, no, I didn't say that." And then the meeting blew up. It turns out he was really being not only artful, but deceitful. Then there were extremely bitter statements made by a number of countries and then I made a statement also, which was more in sorrow than in anger.

At that point, we all walked out, and were immediately mobbed by the press. I said that the proposal was rejected by the Japanese and the Europeans. And there was absolute pandemonium in this huge barn of a building. In fact, the meeting had to end by Saturday at the latest, because the horse show was coming in. We thought that that was somewhat appropriate, that we were replaced by a horse show. It was in a large, cavernous building, and we were almost crushed by the press coming out of there. And then there were hurried consultations on what happened. Was this the end of the Uruguay Round, and so forth. The Chairman of the Conference, the Uruguayan Minister of Foreign Affairs, again the name escapes me, held consultations with a number of people, and at the end they decided that the negotiations should continue, although it wasn't clear on what basis. The conference was a failure, although there were some statements saying that consultations would be undertaken and to continue to find a basis for continuing the negotiations.

Following the breakup of the negotiations that Thursday night, we had a debriefing for our advisors. We had an entourage of several hundred private sector representatives as well as press present. We had rented a hotel in Brussels for the American delegation and formally appointed advisors. But then there were a lot of other people in town, hangers-on as it were. So we had this briefing, and it began after midnight. Rufus Yerxa, who was my colleague stationed in Geneva, the deputy USTR stationed in Geneva, and I conducted the briefing.

I looked at my watch and I said, "It is now December 7, 1990, Pearl Harbor Day, and this debriefing is taking place in an auditorium of our hotel, which is known as the Waterloo Room. I won't comment further on the symbolism." But it was in a rather sad occasion for me, very disappointing, even though I went to Brussels without great expectations. But at various moments we thought there were possible breakthroughs. The interesting thing was the reaction of our audience. They were almost elated, and came up to me then and the next morning at breakfast to congratulate me. And I said, "What for?" And they said, "Because you stood firm. You didn't cave. And whereas in the previous negotiations we had always caved on agriculture, this time you stood firm, and this was a great victory for the United States." Well, I didn't quite see it that way. I thought the object of a negotiation was to reach an agreement, and not to fail.

Q: But in a failure builds on an agreement later on, sometimes.

KATZ: Obviously the object not only is to reach an agreement, but to reach an agreement that meets your objectives, which satisfies your interests. And clearly I had no desire to reach an agreement for the sake of an agreement. But I was still disappointed that we had failed. Never mind that it was somebody else's fault, it was still a failure. But I think that the cynical view was that the Community would have loved to have an agreement which was essentially not an agreement, just a papering over once again.

Q: What was driving the European Community? They couldn't get it together, or they just didn't want to have this happen? At that time, what was your analysis?

KATZ: Our analysis was that they were just being obdurate, that they were not willing to basically give up any part of the Common Agricultural Policy. They were not prepared to give up export subsidies, to reduce prices, or to end internal support. There was tension within the Community. The Brits and the Dutch and the Danes were pushing to some extent; the Italians slightly. But even within individual member states, there was tension. The German Economic Ministry always talked a great game, saying they were going to make this happen. They were encouraging the view that the Chancellor would come down on the right side. But the Ministry of Agriculture was obdurate. But what we did not know at that time, and this is fairly significant, we did not know until Christmas time 1990, just the week before Christmas, and after the Brussels meeting, that the Commission had undertaken a study on the Common Agricultural Policy, and had concluded what we knew, that the policy was in terrible disrepair, that it was essentially broken, and that major reform was required. That report then came out in early January.

Now I said at that time that the Community was negotiating in bad faith. Because here they brought us to Brussels, refusing to negotiate on agriculture, knowing that they had to change their own policies. But they were basically unprepared to negotiate, and it would have been better for them to say, "Look, we have a severe problem. We know we're going to have to change our policy; we're going to have to reach a consensus among the member states, and until this is done let's just suspend the negotiations." But they did not do that, and so we spent a lot of time spinning wheels.

We are now in January of 1991 and nothing is happening. We now had another problem, because on March 2 our negotiating authority would expire. The so-called fast track negotiating authority would run out. So we had basically two months to try to revive this negotiation, and get it going. And there were questions about whether we could do that; whether that was even feasible. We were willing to try. We started a series of consultations again. We went to Geneva. There were various groups of people trying to restart the negotiations, but clearly that wasn't going to happen. In the meantime, there were the beginnings of discussions on NAFTA.

Q: Here we go again.

KATZ: Let me go back for a moment. We had this problem of fast track. But still there was a brief effort to try to negotiate, that is, to try to conclude the negotiations in time so we could notify Congress. The requirement for fast track was that we notify the Congress of the intention to enter into an agreement. And that drop dead date was March 2. That still would permit us to perhaps, under some interpretations, to continue to negotiate the details. That is, if we could get the basic outline of the agreement, maybe that would have been sufficient to notify the Congress. And then in the meantime, we had the prospect of the negotiation with Mexico and Canada of the NAFTA, the North American Free Trade Agreement. So we pretty much decided we were going to seek a fast track extension, but the question was whether we could do that for the Uruguay Round, given the delays and the disappointments and the prospects. But, at any event, we continued the negotiations. We were no where near in a conclusion by March 2, and now the Community was into its discussions on CAP reforms (common agricultural policy), also complicated by one more round of their annual price decisions.

Another event was beginning to intervene into these deliberations. As I said earlier, one of the major concessions we had negotiated earlier, was a concession on soy beans, a zero tariff on soy beans. And over the years, the Community began subsidizing their domestic production of oil seeds, to the point where we lost much of our market in the Community. Incidentally, the effect of this was not only to lose our market in the Community, but they were also subsidizing exports of vegetable oils. So we faced unfair competition in the world market. Now part of it was our own fault, because in 1973, following the imposition of price controls in the U.S., we had a supply problem, and we put on an embargo of exports, briefly, and then cut export contracts in half. And that produced a severe shock on the Japanese, who were very dependent on imports of soy beans, and they began to invest in production in Brazil. We created a major competitor in Brazil and to some extent Argentina. And they occupied some of the market.

At the same time because prices of soybeans rose to very high levels, which incidentally, are not only used to abstract the oil, but what is left after the extraction becomes meal, which is an animal feed. So while we had lost the market for beans and oil and meal to a substantial extent, there was a void created, and a new product came on the market called corn gluten, which is the by-product of the milling of corn, which is the result of another

distortion resulting from our agricultural policy, specifically our sugar program. Corn was then used to produce a sweetener, high fructose corn sweetener, which produced this by-product, corn gluten, which we exported like mad to Europe, upsetting their internal policy. And that became another issue in the negotiations. The Community introduced the notion of rebalancing. Basically, they wanted to take back the concession on soy beans, and they also wanted to put limits on imports of corn gluten.

Q: Corn gluten does what?

KATZ: It's an animal feed. Now, because of their subsidies on oil seeds, we decided, I believe in 1989, to bring a case against the Community in the GATT, for nullification and impairment of our concession. That is, basically they undermined the concession and the term for this in the GATT is nullification and impairment. We brought this case, and we won it. We got a finding in our favor, and that came along in late 1991. The Community was outraged by this. They condemned the report and they shouted and screamed and gnashed their teeth, but we said, well, we've got you to rights. We attempted to negotiate with them, but basically got nowhere, so we decided that we would then do the next thing we were entitled to, which was to retaliate. And we had a lot of argument within the government as to the amount of retaliation, but ultimately we settled on \$1 billion. So the retaliation would take the form of raising duties on products in the Community. This then became, not an issue in the negotiations as such, but a simultaneous issue, and inevitably got mixed into it.

Finally, late in the Spring of '91, McSharry, in a meeting with us, attempting to negotiate on this, said that he would be ready to negotiate when he got his mandate from the Commission. That is, they decided on the CAP reform, including reform of the oil seed regime, and then he would be able to negotiate. So we held it off and held it off. Also, because the Community disagreed with some elements of our interpretation of the report, we did an extraordinary thing. We said that we would be willing to relitigate a portion of the report on our original complaint. So we sent it back to the GATT panel for a second report, and once again they came down in our favor, so we were in an extremely strong position.

McSharry got his mandate in late July of '91, but there are three typical things when negotiating with the Community: first, you can't negotiate with them until they have a mandate, that is, an agreement among the member states on a position. Once they have a mandate, there's nothing left to negotiate, which makes it rather awkward. This is something I discovered as early as the 1960s, but it carried throughout subsequent negotiations. Now, in fact, they do negotiate around the edges, and then they have to go back and get agreement on revising the mandate. But it makes it extremely difficult. Incidentally, that's one of the reasons we have fast track authority, and we always suggested to the Community that they also needed a fast track authority. The second characteristic, as I explained, was that you can't negotiate on agriculture through the Spring, and then the third thing is that you can't negotiate in August. Because in August Europe shuts down, and everyone takes their holidays. And then in September they

recover from their August vacations, so that leaves negotiations through October and November, and three weeks of December. And that was pretty much the practice of negotiations.

So we were now into October and at that point we began a series of meetings at the ministerial level -- Hills and Andriessen and McSharry, and the new Secretary of Agriculture, who had been appointed in early 1991, Edward Madigan, a former Congressman from Illinois, and former ranking minority member of the House Agriculture Committee. We began these meetings, not only on agriculture, but on some of the other issues in negotiations where we were at an impasse with the Community. There were some tariff issues where we were seeking to achieve zero duties among major exporting countries. This was the so-called zero-to-zero initiative, which involved the elimination of all duties on a sectoral basis. There were issues with the Community on things like paper and wood products, and electronic articles. I believe aluminum was another one. And then there was a serious problem in the audio-visual area, which the Community portrayed as a cultural issue. They complained about being overrun by U.S. films, and television. Essentially it was French protectionism. And there were some other issues. And then simultaneously the agriculture issue. So we had one session in Brussels. It seemed to move us along in a little bit, but then follow-up meetings of the negotiators didn't record much progress.

We then began to negotiate more intensively on agriculture. We had a little group that was formed consisting of ourselves, the Community, and the Australians, which was kind of an extension of the meeting I referred to outside of Geneva in the summer of 1990. It was essentially Crowder and myself, and Guy Legras, and Hugo Paeman, who was the overall coordinator for the negotiation for the Community, coming out of DG-1, and Peter Field, the Australian representing Cairns. These meetings began secretly, but ultimately became known. Then, from November to Christmas time, I made six trips to Europe in seven weeks -- not scheduled, but that was the way it evolved.

In late November, there was an annual U.S.- EC summit meeting at The Hague. The President of the Commission, which rotated on a semi-annual basis at the time was the Dutch Prime Minister, whose name was Lubbers, and he was in the Chair. The major issue, apart from Yugoslavia which incidentally had not yet fallen apart, was agriculture. This time, unlike the G-7 Summit, we were in the room; Carla and myself as a back-bencher. The discussion really got very detailed, and President Bush entered fully into the discussion. I was just amazed and pleasantly surprised at President Bush, who instinctively held his own in the discussion.

There was a break, and then a conversation took place over in the corner between DeLors, who was the President of the Commission, McSharry, and Madigan. We officials, standing off to the side, wondered what this was all about, and then Madigan and McSharry, and Crowder and myself were asked to meet off in another room and they explained what they had talked about. The Community made a proposal, which was essentially based on the Helstrom proposal at Brussels. Instead of 35% over five years,

they proposed a 36% cut over six years. We said O.K. But then the issue developed how would the cut in export subsidies be measured? Was it to be measured in dollar terms or in volume terms? We wanted a cut in volume. The Community insisted that it was to be measured in monetary or budgetary terms. We said, but if it is in dollar terms, and the price goes down, then the volume would go up. That can't be. So we had a big argument about that. In any event, we were beginning to finally start a negotiation. We were talking about real things, we were talking about numbers. It was beginning to narrow.

We then went out, the Ministers reported to the Heads, to Bush and to DeLors and Lubbers. And it was agreed that we would pursue these negotiations. One of the ideas then came up was that the reduction in subsidized exports would be measured by both volume and budget; it would be 36% overall, but three-quarters in volume and one-quarter in money terms. In any event, that meeting ended on in a somewhat cautious note of optimism. We weren't quite there, but at least we were starting. And we had some follow-up discussions.

Incidentally, there was one event before that summit meeting at the Hague. We had arrived in The Hague for the Summit meeting, but then we were told to go to Rome to brief the President. So they arranged for this little Air Force executive jet, and we got on at about 11 o'clock in the morning. Madigan, Crowder, Carla, and myself. We flew to Rome, and got off this executive jet and got onto Air Force One. They had absolutely nothing to eat on the executive jet. They didn't even have a coke on board. We got to Rome at about 2 o'clock, went immediately aboard Air Force One and waited for the President to come on. Finally the President came on board and we took off, going back to the Hague. And then we got ushered into the conference room.

This was my first flight on this Air Force One, the Boeing 747. I'd been on the 707 several times. But this was not to be believed. The conference room was several times the size of this office. The President came in, Baker, Scowcroft, Madigan, Hills, John Sununu, the Chief of Staff. We started going through the issues and then a steward came in with a plate of munchies, put it in front of the President, and Baker and Scowcroft were passing it back and forth. I was sitting opposite the President at the other end of the conference table, with pangs of hunger. And they brought another plate in, and they began passing it at the other end, and there I am sitting there. And finally Sununu said, "Would you like something?" When the President then went to the summit, he had been briefed, not only with briefing papers, but had the benefit of an oral discussion, so that was a very productive briefing.

Following the meeting at The Hague, there was another trip to Brussels that I made with Madigan and Crowder. We'd had a meeting with McSharry in Brussels and that didn't get anywhere. And then Lubbers came to Brussels. We had met through much of the day with McSharry, and not being able to narrow these differences, we then began meeting with Lubbers, who came into McSharry's office at 2 o'clock in the afternoon. And we went nonstop until 1:30 in the morning. We went almost 12 hours, and were unable to break the deadlock.

We were now into December and getting near Christmas. The idea again to try to finish the negotiations by the end of '91. Finally, Dunkel had decided that some of the other issues were beginning to come together, and there was a lot of agreement language in a report that was being developed. Dunkel then decided that he was going to put all of this together into in a document, which became known as the Draft Final Act, which was in a collection of all of the agreements. We continued to negotiate in Geneva, and then I went flying off to Brussels because there was about to occur a bilateral ministerial meeting between ourselves and the Community. This again was a semi-annual event. One meeting was held at the heads of government level, and there were two at the ministerial level. Baker was there, and so we went to meet with Baker. We flew back to Geneva, reported to Dunkel, and finally Dunkel said, "No matter what happens, whether you finish or not, I'm going to have a draft report, and I'm going to present my own views on the outstanding issues." For the first time -- first and only time -- Dunkel decided to take an initiative. He generally seemed to see himself as the arranger of meeting rooms and provider of interpreters and loath to take positions in an effort to move the negotiations.

So, having gone to Brussels, back to Geneva, and I went back to Brussels again to join this ministerial meeting with Baker. More meetings took place between Baker and DeLors, trying to break the deadlock. At one point Baker said to Carla and me, "I think you guys have really become somewhat unreasonable. This is your best chance. This is your only chance to end the negotiation, and anyway, Dunkel is going to produce this report, and you know, you may be worse off after the report." I replied, "No, I don't think so. I think what Dunkel has in his report will be more to our liking than it will be to the Community's liking."

Dunkel kept holding off hour by hour, delaying, delaying, hoping we would reach agreement. And finally, around midnight, the report came out. We got the word of this, and it was pretty much along our lines. He to some extent, had cut the baby in half, but had taken more of our views. The Community was absolutely outraged. And the next morning, we had this plenary meeting of the ministers. They went berserk. Dunkel had betrayed them; it was a put-up job between the Americans and Dunkel. At one point Baker took us aside and tried to get something started again. But Lubbers refused saying, "It's all over. We're not going to proceed in this way."

So that ended up in a pretty somber ride home on the airplane from Brussels just before Christmas. I was absolutely exhausted, having had two months of this shuttling back and forth, ultimately to no avail. Except that we had the draft report, the Dunkel draft report, which was, on the whole a pretty good document. There were some things in it we didn't like, but it was basically more to our liking than to the Community.

Some thought that we should endorse the Dunkel text as it was. The Australians in particular urged us to do this. I was sympathetic to this view. But we had some problems with the intellectual property section and with the anti-dumping text. I thought these were things we could live with, but the private sector, the pharmaceutical industry, was

unhappy about the transition provisions on products that were in the research pipeline -- too long before they received protection. The protectionist industries, such as steel, didn't like the dumping provisions, and wanted more there. But the basic problem was that the Community was just furious.

In January of 1992, we had a meeting with Andriessen. He came in an absolutely sullen mood. We asked what could we do, and he said, "Well, we can't do anything. This has really set us back to the point that this is impossible." It was almost childlike behavior. At one point I said, "Why don't we just drop agriculture. It's just too difficult to do. It was a good try, we came close. We'll have to fight it another day. Let's just drop it." "We can't do that, that's impossible," he said. I said, "Well, we can't agree. Why should we hold the rest of the negotiation up?" But he had no ideas, the whole thing was hopeless. But finally coming out of that, we agreed that we would start something at the level of officials. And we began another series of secret meetings, just the U.S. and EC. Again, Crowder and myself. And our two counterparts from the Community, Legras and Hugo Paeman, who, incidentally, is about to become the Ambassador from the Community, now the European Union, in Washington.

So we began these meetings, alternating in Washington and Europe. We met every few weeks in February, March, and April. Incidentally, we were now dealing both with the agricultural issues in the negotiations, and the oil seeds issue. We now had the second GATT panel report. The Community began to face up to it and said O.K. They made a proposal which would involve reducing production, by putting limits on acreage in the Community. And we began trying to narrow these issues and reach agreement. There was one meeting we held at Heathrow Airport. We flew to New York, on the day flight, spent the night at Heathrow, met all day, and took the six o'clock flight back from Heathrow to New York, and then back to Washington. I got home at two o'clock in the morning. I said, "I ain't never going to do that again." That was one of the dumbest thing I'd ever done.

We came to April, and again, there was one of the heads of government meeting. DeLors came to Washington and met with the President. We got nowhere. At the time, Arthur Dunkel was in Washington, and asked me to have a drink with him. I met with him, and gave him a full briefing on these bilateral talks. I told him that the talks were not getting anywhere, and as Director General, I thought that he had the responsibility to bring these negotiations back to Geneva. I thought that it was unfair to the other participants in the negotiations. They ought to know what is going on, and that he as Director General ought to lay it out. He was very uncomfortable. He was very defensive because of the attack he had been under from the Community. They pretty much wouldn't talk to him anymore. He made some efforts in Brussels, but he wasn't getting anywhere.

There was another meeting then, in May, with Jim Baker at the Blair House, and with Andriessen and McSharry that got nowhere. Summer came up again. By then we decided we were going to retaliate over oilseeds, and with great difficulty, we finally reached agreement within the Administration that we would retaliate to the extent of \$1 billion, but would do it in three tranches. That is, we would do it in \$300-350 million slices; if

there were no agreement, we would do another tranche, and then another tranche. But this was the shot across the bow that really caught their attention. It was high-risk strategy, because had we actually imposed the retaliation, the negotiations would have been over. But they may have been over anyway, and I thought we had nothing to lose. I was arguing very strongly for this. We had in a number of high level confrontations within the Administration, meeting in the Situation Room, where we argued it, and finally got an agreement. Interestingly, Larry Eagleburger, Deputy Secretary of State, was very strongly supporting this. The White House, specifically the NSC, and the CEA, and the Treasury were very nervous about it, but we got agreement. So that provided the spark.

In October we began another set of meetings. Now for the first time Andriessen really became engaged. But the other thing that happened was now we had the 1992 Presidential election. And by September, President Bush's fortunes were not looking very promising. Baker had now gone into the White House as Chief of Staff, but clearly without a great deal of enthusiasm. There was a dispirited view in the White House itself, which was pretty clear, and the Community was beginning to question whether these were the folks they ought to be negotiating with. But they had the oil seeds thing hanging over their heads, and we were arguing that we could finish this, we could get it done, and that you really wanted to finish this thing with the Bush Administration. If there were a Clinton Administration, it might mean starting all over again?

Inevitably with a new Administration, you don't know what that Administration is going to be like; there was some ambivalence in Clinton's position on trade at the time. So they said, "O.K., let's do it." We then had a further effort in October that still didn't close the gap. There were some meetings that Agriculture had on its own. Joe O'Mara, who was now the principal USDA official, Crowder having left the Government; he was not succeeded as such, but effectively was succeeded by Joe O'Mara, who had been an assistant to him. O'Mara had some meetings with Legras which didn't get very far.

Next there was a meeting in Chicago between Madigan and McSharry. I went there and we met on the Sunday night before election day, on Tuesday. We started with a dinner meeting, and didn't get any where. We met the next morning, and again didn't make much headway. We took a break, then resumed. Incidentally, McSharry had been scheduled to leave on Monday. This was basically to be an overnight meeting. We kept going, we kept breaking, resuming, and finally decided that we would go over to the next day. We had a social dinner, which was very amusing, because McSharry could be very funny. He was engaging in a certain amount of character analysis of people in the Community, which was amusing. We met the next morning. We were drafting and trying to find language, and we still couldn't come to an agreement. Madigan decided that he had to go vote, and he wanted to go vote in his district in Southern Illinois. He had arranged for in a private plane to take him and was going to come back in the afternoon. He got delayed by traffic and McSharry was determined to leave that evening.

We were meeting in a hotel suite, and they had checked out of their rooms. A telephone call came for McSharry from Brussels in our Suite. We were in the bedroom, and he was

in the living room, in a very agitated state. I wasn't trying to eavesdrop, but he was clearly very angry. Madigan was late in coming back. He had landed in Chicago and was trying to get through traffic from the airport. The Community people were all standing in their overcoats, ready to leave. And we said, "Well, we just heard that they are just a couple of blocks away, they will be here shortly."

Incidentally, a new issue had arisen about a so-called "peace clause." McSharry wanted a provision in the agreement which said that during that the six year implementation period there would be no dispute cases brought in the GATT against the Community. Having in mind the oil seeds case, he did not want to have a repeat of that. We had resisted that for a long time, but finally we worked out some language which essentially took the provisions already agreed upon and turned it into something the Community could claim was a peace clause. We would not be giving anything up, except in language. So we had tried that out, and McSharry reacted very badly. Madigan finally returned, and the Community was still there in their overcoats. And they were summarizing where we were, and said, "What about the peace clause?" And I described what we were prepared to do. And he blew up, and said, "I'm not going to sit around here and listen to a lot of fookin garbage by a lot of fookin officials and he just stormed and raged. Finally they left."

The next day, after McSharry got back to Brussels, he resigned his responsibility for the agriculture negotiations. What we had not known was that telephone conversation in our suite had been with DeLors. And DeLors had criticized him, saying "What are you doing in Chicago negotiating? You don't have any authority to negotiate." So when he got back to Brussels, he said, "I'm through. Get somebody else to negotiate this. I'm not going to negotiate." The British were then in the Presidency, and this became a little bit of a scandal in Brussels, and DeLors went to London to meet with Prime Minister John Major. Major, incidentally, was trying to be very helpful in the negotiations. By then another two more G-7 Summits had taken place, and Major was trying to be helpful. When DeLors came out of 10 Downing Street, he was besieged by the press. I have a picture of someone holding up a sign, saying, "Up yours DeLors!"

McSharry was coaxed back into the negotiations, with Andriessen. They came to Washington. The meeting was held at Blair House. And again, they came in late in the afternoon. We had some finger food for dinner, but they didn't want to meet very late. We kind of outlined where we were and then started the next morning. We outlined the positions and then agreed to recess for a time. They had made a proposal to us that night. We took it on board, reworked it the next day, gave it back to them in the early afternoon. Now this time it wasn't McSharry who exploded, it was Andriessen, saying, "You haven't paid any attention to anything we've said." Clearly the problems with the French were paramount at that point. We had narrowed the reduction in export subsidies to 24% on a volume basis, and 36% on a value basis. The French were balking at that. They tried to bring the volume down to 21%. The oil seeds issue loomed large and we were exchanging various formulations on that. I had said previously to Carla Hills that when we brought our proposal back if they rejected it, that she should not let the meeting break up, but she should take the Ministers off privately and keep working on them. And so

that's what happened. They went off into another room. They were there for about one hour. Andriessen was the first one to come out of the room. He came back looking very sullen and not communicating with us, but talking to Paeman in Flemish. I couldn't understand that, so I got up, walked out, and McSharry had gone to the front of the Blair House to use the telephone. I walked back into the room, and Madigan and Carla were there, and they were in a bit of an argument. Obviously they had exchanged some other numbers, and Madigan was kind of shaking his head, saying "I don't think we can do it. I think that doesn't go far enough. I don't think we can accept it."

Then Carla and I went to the front of Blair House, to in a little room, and we talked. I said, "We're getting awfully close." Then Madigan came in the room, and there was more conversation. I wandered out, and there was McSharry, and he pulled me across the hall, and we began a little scrum there. McSharry clearly wanted an agreement. We were joined by other people, and then that broke up, and another scrum in another place. Madigan disappeared. Finally things were beginning to come together. The Uruguay Round issues I think had been pretty much settled; we were very close on those. But the oil seeds, how they would actually cut production, was the issue.

Finally it was agreed that a statement would be made and the Ministers would go out to the front of Blair House to meet the press which was gathered on Pennsylvania Avenue. They would go out there and give their statements to the press. But Madigan would not agree. So we walked back into the back room. Madigan had been on the telephone with the oil seeds constituency, saying "I'm sorry, I can't go along with it." So we went out and the Community people were standing in their overcoats again; they had been in their overcoats for about one hour at this point -- and I said to Legras, "Guy, why is it that you people always negotiate with your overcoats on?" So in the end, it was decided that there was nothing that could be said, and we said, "Well, we need a little more time to consult." The Community had to catch their plane, so they went off.

We then went across the street to the White House, meeting in the Situation Room with Baker, Eagleburger, Scowcroft, Madigan, Hills, Zoellick, and myself. Madigan saying, "I don't think we can do it. The rest of you can go ahead and recommend this, but I can't go along." I argued that we should do the deal. I said this was the best shot we had. Carla supported me. Eagleburger, agreed with us, as did Zoellick. Baker said very little, taking no position. In any event, we met until about 10 o'clock at night. It was agreed that there would be a meeting with the President in the morning, with Carla and Madigan.

Carla and I went back to our office, I had a feeling that if this were presented to the agricultural producers they would go along. So I began calling some of them, trying to reach them at 11 o'clock at night and later. The most important guy was the head of the Farm Bureau, who was in Australia. But I reached one of his people in Washington who said he would try to reach him.

The next morning I met with the oil seed producers. I had had kind of a rough session with them once before, when we had decided to go back to the GATT a second time. But

the President of the group ultimately became a supporter of me. He was in a farmer from Florida. The poor man was killed about one year ago in a tractor accident. But after that first rough session, he came in and said, "You know, my daddy always told me to pay attention to people with white hair." But when I brought him in that morning after Blair House and told him that we were going to go ahead, and what the deal was, he was unhappy. He said, "Look. I have to tell you that this is a bitter pill. But I know you've done the best you can, and it's a judgment you have to make, and I will support it," which really made me feel good.

The head of the Farm Bureau, Dean Kleckner, supported it. In the meantime, the President had decided we would go forward. It was decided that Madigan should call McSharry and see if he could push him just a little more, but that if he couldn't that we would accept a deal. McSharry and Andriessen had gotten the support of the Commission.

So the agreement was announced late Friday morning. Madigan, to his credit, went out and defended it. He was a good soldier. It was less than we wanted, but we thought was good enough, particularly given the rest of what was at stake in the rest of the negotiations. So we thought we had a major breakthrough. It was now, November 18, and we thought that we could finish the negotiations by the end of the year. And so we put on a mad rush. There were meetings going through the night in Geneva. But we still couldn't quite do it.

Of course, we would be out of office on January 21st. On January 2 a new Commission was to take over in Europe. Andriessen was out; McSharry was out, and the new Commissioner for Trade was Sir Leon Brittan, who had been Commissioner for Competition Policy. He asked to meet with us. So, on New Year's Day, Carla and I flew to London. We took the day flight, spent the night at Heathrow, and then met all day the on the 2nd, with Leon Brittan, who was a breath of fresh air, compared to Andriessen. I said to Carla, "You know, if he had been here six months ago, we'd have finished this thing." He was fairly well briefed, accompanied by Hugo Paeman. We went through the issues, saw where the problems were, agreed that we would make an effort to bring the issues to closure. There were recent tentative understandings on where there would be give on both sides, or where there might be give on both sides, and that we would try to finish this before January 21st. Not, obviously, being able to sign an agreement, but essentially breaking the back of all of the remaining issues. We thought we had settled agriculture, but there was audio-visual, there were some tariff issues, anti-dumping issues, and textiles were another major issue. Essentially, we would break the back of the issues, give it to the new Administration, and permit them to finish this.

We had told the transition team what we were doing. And we didn't ask them to agree, we said, "Look, here's what we're doing. Of course, you are free to do what you want thereafter, but we think it is our responsibility to bring this as far as we can." So we came back to Washington. We called the textile industry and told them what we were going to

do, which they were very unhappy about, but they saw the handwriting on the wall, and told the other industry groups.

We then talked to Leon Brittan and it was clear that things had changed and that he was beginning to pull back. And I think what happened was again, the Community got an attack of doubt -- should they be doing this deal with a lame duck administration that had less than three weeks. And so the effort failed and we left office on January 20th. I stayed three more weeks. Mickey Kantor asked me to stay a month to help get organized. After one week it was clear I didn't have a whole lot to do; I was basically briefing, but I was out of the loop and kind of uncomfortable, so after three weeks I left. I think maybe this is in a good place to break.

Q: Again, I want to ask about the role of intelligence. Not interpretation. I'd also like to ask about the role of our various embassies. While all these things were going on with the economic community, they must have been taking soundings and pushing things in a bit. And then, on NAFTA, of course, and also on the role of NAFTA: did it play any part in being a looming cloud over the negotiations with the EC, as far as, in a new game is beginning to play over here, and maybe we'll just forget the EC, or something like that. Those are some of the questions.

KATZ: There's also the great mystery: how could we do two negotiations at the same time? I think those are good points. We also have the Russian thing.

Q: And anything on intellectual property, but I think this is always an interesting thing.

KATZ: I was not directly involved in that, but I can comment on some of that.

Q: Today is the 21st of September.

KATZ: And for some reason it's not the first day of fall, which destroys seven decades of mythology. I always thought that the autumnal equinox came on September 21, but it's September 23.

O.K., why don't we do NAFTA. Let me begin by saying that Mexico had a long history of antipathy, if not antagonism, toward the United States, going back to the last century. After the revolution in 1928, there was a long period of very inward-looking economic policies. So Mexico was not a member of the GATT, for example. We had a pre-war trade agreement with them, which was more honored in the breach.

Beginning in the 1970s there was some effort to reform their economy. Their economy was highly statist, with a great deal of nationalized property, beginning of course, with the oil industry, the hydrocarbon industry, and energy generally. Metals and minerals were partially state-owned, transportation of course, and telecommunications, as in most places

in the world. Their trade was highly restricted, with very restrictive quotas. There was an effort in the '70s to begin to break out of this, and an effort was made to enter the GATT. But that was viewed as treason by some people in Mexico, especially among some industrialists. So that effort was pretty well scotched. But clearly things were beginning to rumble there.

There was at the end of the Carter administration a group of private American citizens, Henry Kissinger being one of them, who were involved in a dialogue with the Mexicans. And just before the Reagan presidency, I believe it was in the transition, Reagan had a meeting with the President of Mexico, and there was some discussion about closer economic collaboration. Then, of course, came the collapse in oil prices and the debt crisis. The Mexican economy really went into the tank.

Q: This was during the early '80s.

KATZ: Yes. Reagan came in 1981, but by '82 they were in deep trouble. President Lopez Portillo left under a cloud, because of a question of personal enrichment. But anyway, there were beginnings of new winds blowing in Mexico. Before President Bush came into office, he again had some discussions with President Salinas, but nothing very specific came out of that. That was in late 1988. Then in 1987 came the U.S.-Canada Free Trade Agreement, and that obviously set people in Mexico to thinking. President Salinas preceded by President de la Madrid, had begun taking some market-opening measures. And in 1986 Mexico actually entered the GATT, for the first time. And they began bringing down their protection very rapidly. They came from almost infinite protection, down to bound rates of 50%, that is, rates to which they were committed not to exceed. In fact, they were bringing rates down to around 20%, and ultimately down to around an average about 10%, with some quotas remaining, but a commitment to get rid of them.

President Salinas then began traveling around the world, trying to encourage investment in Mexico. He took a trip to Japan, which was not terribly encouraging. Then in early 1990 he went to Europe. That came as kind of a shock to him. He ended his trip at the World Economic Forum in Davos, an annual event that draws many important figures in the world: ministers, ex-ministers, CEOs of major companies, and some heads of government. When he got to Davos, in Switzerland, at this World Economic Conference meeting, the buzz was about Central and Eastern Europe. Of course, the old Soviet empire had disintegrated by then, and everybody was talking about the great investment opportunities in Eastern and Central Europe and Russia.

The other thing that was going on in Europe was something called "EC 92," that is, a program in the European Community to remove the remaining internal barriers to trade to dissolve the borders for economic purposes, to harmonize regulations, remove all remaining customs barriers, and harmonize banking regulations, standards, and to complete the so-called single market. So what Salinas found was that Europe was very inward looking at that point. Their preoccupation was building this internal market with a lot of investment having flowed into Europe to get behind this new wall, and then beyond

that, all the external interest was to the east. And so as Salinas surveyed the horizon in North America, there was the United States and Canada, and Canada was a bit of a competitive threat to Mexico, or at least a threat to their aspirations, not a real threat, because Mexico was not a legitimate competitor of Canada at that point. But certainly as an aspiring competitor, they would be shut out. As you looked across the Pacific, nobody there with any great interest, and in Europe very little interest. So he decided at some moment in that period, and I don't know if that was a confirmation of something he'd been thinking about, but he decided that Mexico needed a home, as it were -- an economic home.

After he returned from Davos, sometime late in February, on one Sunday night, he telephoned George Bush and said "I'd like to do a free-trade agreement with the United States." This came to us as a little bit of a surprise. Not a tremendous surprise, because there had been some rumblings about it, even going back as far as the Reagan Administration, but mostly by Americans. Some Mexicans had also expressed interest, but they were private sector people.

Q: Just to get a little feel for the role of your operation, your office at that time, were you looking around for places to make agreements, or were you so busy that you ...

KATZ: No. We were pretty fully occupied with the Uruguay Round negotiations, which we were supposed to finish at the end of 1990, we were committed to finishing at the end of 1990. We had a tremendous amount to do to get there, because we had the problem with Europe and agriculture, and hadn't really gotten that started, and we were pushing the Europeans to do that, plus all the other issues in the Uruguay Round. And then we had a normal array of bilateral issues around the world: Japan and specific issues such as telecommunications. We had a separate mandate under law to examine barriers to U.S. telecommunications trade, and then we had a similar provision with respect to government procurement and we had another mandate with respect to intellectual property. So we had a pretty full plate. Also I had just initiated a trade agreement negotiation with the Soviet Union.

So the word came from the White House that Salinas had made this bid, and we had to go to work quickly to see what we thought about it; what were we going to recommend.

Q: Just one other thing, on the operational side: Is there sort of a free trade agreement "folder" that one has tucked away somewhere, that you pull out and fill in the blanks?

KATZ: No, not at that point. Of course, we had the precedent of the Canadian agreement, which was a pretty good agreement, but which fell short in a number of ways. No, we hadn't really gotten to that point. In fact, there was still a certain amount of tension between the view of some people, particularly some people in the Administration, Jim Baker, Bob Zoellick and Bob Mosbacher, who thought that we ought to do bilateral free trade agreements wherever we could. And then there were the old multilateralists, like myself, who thought that our primary interest was in fostering the multilateral system. So

that was certainly in the back of my mind when I was confronted with this issue by Carla Hills. I did have the concern about the diversion of attention away from the Uruguay Round, but more than anything I was skeptical about the Mexicans, and about how far they were really prepared to go. When they said a free-trade agreement, did they mean a true free-trade agreement in the sense of a reciprocal comprehensive free trade agreement, or were they looking for a special, preferential arrangement, really kind of a one-way free-trade agreement.

There was one other question that bothered me. And that is, we had a major interest in Mexico, but we had other interests in the region, particularly in the Caribbean region. And would an agreement with Mexico result in the diversion of trade away from the Caribbean countries? So we discussed this, and decided we had to do a little bit of work before we came to a decision. The first question we looked at was this question of diversion, and we put our economists to work on that.

Q: Did you have a stable of economists that knew the Caribbean economies, the Mexican economies, that you draw on in your office? Or did you go elsewhere? How did you do it?

KATZ: "Stable" is a vast overstatement. We had an Office of the Chief Economist with an excellent economist, David Walters, with an assistant, who was borrowed from the International Trade Commission. And we had the equivalent of a country desk. We had some people who were working on the Caribbean area. In any event, we put the economist to work, and he came up with a report that concluded that the diversionary effects would be minimal. Something which, incidentally, is still being argued.

Q: The real interest for us was we wanted to make sure the Caribbean countries were viable, right?

KATZ: We did not want to destabilize that area by causing economic harm. But the conclusion was that the diversionary effects would not be very great. So that was not a consideration. As far as the Uruguay Round issue, I concluded pretty quickly that was not something that was a primary concern. My view was that I got my training in the infantry, and if there was one more hill that you had to climb, or walk another mile, or fire another shot, you did it. If we worked 12 hours a day, well then we'd have to work 14 hours a day. But that could not be a reason not to do it. And the other question about whether the Mexicans were interested in the right kind of agreement, we would have to test, by entering into some preliminary discussions with them to see how far they were prepared to go in producing terms of reference for the negotiation.

So, that was basically what we went back to the President with. To be very candid, left to my own devices, I would have probably argued for putting this off for a year. But there were some internal politics involved too, and it was characterized by the phrase that we did not want USTR to be viewed elsewhere in the Administration as "wet serapes."

Q: What does that mean?

KATZ: Wet blankets. We were not going to rain on this parade. So, there was pressure for us not to be negative, and we quickly concluded that we wouldn't, but that there were legitimate questions that had to be asked and answers had to be found, and we proceeded to do that.

Q: This became a great political issue, which we kind of knew it would.

KATZ: Well, that was later. I'm now speaking not of the public aspects of this, but the internal administration deliberations.

Q: So at that point, you weren't saying, "Gee, will the public buy this?"

KATZ: No, that was another consideration, but in fact, early in our report to the President, we did make that point too. We said that we had looked at this, and we were concerned about the Caribbean, and we'd satisfied ourselves that that was not a major preoccupation. I don't know if we commented on the Uruguay Round, or whether we just satisfied ourselves on that. We just set it aside. We also strongly urged that we seek consultations with the leadership of the Congress before we proceeded. And with Labor, although I'm not sure that came up in that first report to the President. But the President said, O.K., go ahead.

So we proceeded. Carla Hills went up and spoke to Rostenkowski, the chairman of the Ways and Means Committee, Lloyd Bentsen, chairman of the Finance Committee -- those were our two primary committees of jurisdiction, and also to the ranking Minority Members of those two committees. And the advice that we got was basically, "Boy, if I were you I wouldn't do it. You've got enough on your plate right now, but it's your call." So we had, I would say, grudging support. And I would have to say also, by way of background, that we had excellent relationships with our congressional committees. They were very supportive. They did provide advice, but they were very supportive, so that while they had reservations about this, not so much on political grounds at that point, but really in terms of "do you really want to take this on? You've got more than you can handle. But if you think you can do it, go ahead." We did not go outside the Congress. This was still pretty private and confidential.

Then we began some discussions with the Mexicans. We had a series of conversations. We tried first to negotiate a statement, and what we wanted was a comprehensive agreement, covering trade and goods and services, investment, and intellectual property. Those were the four basic pillars. The Mexicans did a lot of squirming. First they said "sure, the agreement would be comprehensive." "On all four points?" " Well, yeah, on all four points." Of course, that didn't mean that there wouldn't be problems in each of these areas. So we got past that, and sometime in the spring of 1990 it was decided that the two Presidents -- and I think they met somewhere, on the edge of some other event -- should ask their Trade Ministers to make a recommendation to them as to the feasibility of the

negotiation and the terms of reference, and so forth. That's when we began having very active negotiations about the shape of the table, as it were. That is, what would the nature of this negotiation be.

Q: But just to put it in perspective, this whole project was very much presidential driven. You obviously, if you had your druthers, wouldn't have done it at that point. How did you feel -- did the Mexicans had the same attitude?

KATZ: It was all go on their part. I should identify the players apart from the two Presidents. The primary interface was between the Mexican Trade Minister, Jaime Serra Puche, and Carla Hills. And then at the next level, Serra's deputy, Herminio Blanco Mendoza, and myself. When we met, generally the four of us met, or I would deal with Blanco, but basically it was the four of us. But two other elements came into this pre-negotiation. For one thing we were required under the law to review annually the performance of countries on intellectual property. We had to determine whether countries were targets or actionable countries, or priority countries, or priority watch countries. We had intellectual property problems with Mexico of long standing.

Another annual exercise was to decide on the lists of commodities subject to, or available for generalized preferences. This preferential tariff treatment applied to developing countries, of which Mexico still was one. And there was a connection between the two. If a country was a very bad performer under intellectual property, they could lose their GSP eligibility. So we had this side negotiation going on, and it became very much involved in the pre-free trade negotiations too. Carla Hills applied heavy pressure on the Mexicans to come up with a good intellectual property agreement.

In fact, we ended up with a terrific agreement, far beyond what the Mexicans had any intention of agreeing to when they started. There were some very politically difficult things, like compulsory licensing of pharmaceutical patents. It is a worldwide problem in many countries. The laws require that pharmaceutical companies give up their patents or license local firms to produce their products. We always regarded that as a taking of intellectual property. So we got satisfaction on that and on parallel imports, and a whole series of copyright protections. Mexico, like many countries, pretty much ignored, or did not enforce copyright laws. So that books, publications, music, computer tapes, video tapes, etc., were being counterfeited or effectively stolen. So we got that agreement.

We also resolved the GSP issues and then at the same time we were negotiating what was it was we were going to report back to the Presidents. And then finally, on August 1st of 1992, the four of us met. We'd had a number of meetings along the way, but we flew out to Los Angeles, and met there. Through the course of the day we negotiated a statement, which was essentially the terms of reference. This was a joint report to the two Presidents, which basically a statement that we thought that an agreement was feasible.

We also talked about the timing of the negotiations. The Mexicans were very concerned that this negotiation be completed and ratified before 1992. And what they were

concerned about was, first of all, was the U.S. election in 1992, and secondly, there was a Mexican election a year later. And they did not want this to go over into the Mexican elections. But they also had in mind they didn't want it to really be an issue in the U.S. elections. They were maybe a little more farsighted than we were in that respect. Now I said I thought this was doable in that period of time. Having started out as a skeptic, I became an enthusiast. And I said that if 'twere done well, 'twere done quickly, and in fact, I didn't see any reason why we couldn't do it.

I outlined what I said was a back-to-the-future scenario: take the date, and then work back from that. And what would that require? Well, it would require that we start pretty much in that Autumn of 1990, and do the preliminary, what I call pre-negotiation phase. And that is, to use a litigation analogy, discovery. That is, you exchange information on tariffs, regulations, you identify difficult sectors, and we knew there were some, such as automobiles, energy, (I'll have to come back to energy), and you begin trying to develop solutions to problems, or at least options for solutions. You're not really negotiating, but you're conceptualizing. You're laying out the map of the negotiation and conceptualizing possible solutions to difficult problems without really being in a bargaining stage. Now, there's a reason for that; a reason why I suggested that. And that had to do with our fast-track authority.

The term fast-track is really a misnomer. The first thing to understand about fast-track is that it is not fast. It is a procedure that gives you some certainty that if you inform the Congress in a timely fashion, if you consult closely with the Congress, and then you bring back an agreement, which the Congress has been informed about all through the negotiation, then the Congress will take that and consider it and decide within a specific time frame, but importantly not change the agreement. That is, they will ultimately vote up or down within a fixed timetable.

So what fast-track required in the first instance, is that we provide 60 days notice of intention to enter into an agreement. Now, this is 60 legislative days. Sixty legislative days we calculated in August of 1990, would take us through until about perhaps May 1st of the next year, because we were assuming that there would be a recess. Since we were going into the Autumn there would be a recess from sometime in October until January. So this would stretch out over a long period of time. And we would use this period of time to conduct the pre-negotiations. So that when we started, we could pretty well finish the negotiations quickly. I estimated in seven or eight months. That would take us through the end of 1991. We could then present the agreement to the Congress in January of 1992, and by the end of June, we'd have it all wrapped up, and put into force in September or October.

I have to say that I tend to be optimistic about these things because I have never gotten over the tendency to assume that people are going to be reasonable. But, in any event, that was my conception. Now, on the other side, Carla Hills was very nervous about that. She did not want to negotiate under a timetable, because she said, "Well, we'll negotiate until we're finished. And when we're finished, we'll be finished." Her concern was giving

people the impression that we were going to cut corners in order to reach agreement. Now part of my optimism was based on the fact that we already had a model, which was the U.S.-Canada agreement. And we would basically bring Mexico into that arrangement.

There are two other things to cover in this pre-negotiation period. One was Canada. The other was our consultations with the AFL-CIO. We knew that we had to consult not only with the Congress, but with the private sector. Importantly, Labor would be one of those, because we knew that Labor probably would be somewhat antagonistic to this. We didn't really know how much. It was my task to inform the AFL-CIO. So I telephoned Tom Donahue, who was the Treasurer of the AFL-CIO. He was also Chairman of our Labor Advisory Committee, one of the many public advisory committees that serve the USTR by statute. And I said, "Tom, I want to tell you that we have been considering this, and the President has decided that we are going forward, and I want you to know about this beforehand. I hope we can work together on this." He said, "Well, let me tell you. You know we are going to oppose this." I said, "Well, that doesn't surprise me, but nonetheless, I still hope we can work together, and we'd still like to reflect your interest and views to the maximum extent possible." And he said, "Well, there is a price." And I said, "What is that?" And he said, "Adjustment assistance."

Adjustment assistance is a program for compensating workers who lose their jobs because of trade. It is a program that had languished over the course of a decade or so, and labor wanted that program refurbished and renewed. I said, "Tom, I'm on your side on that one. I think that is absolutely reasonable. I don't know what we can do, but I'm certainly prepared to work with you on that." Well, despite that promising beginning, Labor subsequently decided they were going to go all out to defeat it, and they certainly did try.

Q: Did you believe that this Labor feeling a good chance to sort of show some muscle? Because Labor had been languishing over time.

KATZ: That is an interesting story that requires someone else to investigate. Because something happened. My impression was that Tom Donahue was prepared to bargain on this, realizing that he wasn't going to defeat it, but he wanted to exercise maximum leverage. But somewhere between then and subsequently, the decision went the other way. I've heard that it was a grass roots movement; that some of the locals decided that they had to oppose it. The whole story about the vehemence of the opposition to this, I think needs examination. A lot of it had to do with the fact that it was Mexico. It was almost, I don't know if racial is the right word, but ...

Q: Not quite racial, but almost social. A different culture, second rate. Canada was one of us although the Canadians hate us the same way.

KATZ: I think it was sort of characterized by a Perot remark, which I used to some advantage in a television interview sometime later, during the approval process, where Perot said, "These are people who aspire to have indoor plumbing." It was that kind of

looking down. So I think there was a lot of that. And of course, there had been the experience with the maquiladora operations along the border. This is a zone along the U.S.-Mexican border where companies can operate as kind of a special customs area, where they can import duty-free, and then export the products. A lot of this involved importing components from the United States, assembling them in Mexico, and sending them back. Cheap labor, in some cases poor working conditions, environmental degradation, and that was part of the background too. At any event, we made our efforts with Labor, but that didn't work out very well.

Our discussions with our other advisory committees -- basically the industrial, and even the agricultural advisory committees went pretty well. I think they were generally supportive, and in some cases enthusiastic.

But then Canada came along. Canada had gotten wind of this, and they were very apprehensive, because they saw this as a dilution of the benefits they had with their agreement with us. About that time, there was an article written by a Canadian economist, Ron Wonnacott, who used the term "hub-and-spoke." He said that what was happening was that there was evolving a hub and spoke architecture, with the U.S. being the hub, and other bilateral partners being spokes; the U.S. basically getting many benefits, and as you add more spokes, each of the spokes receives lesser benefits. This got some attention in Canada, and in any event, the issue went before the Canadian Cabinet. The Canadian Ambassador here, who was Derek Burney, had raised the question with me. I said, "Well, you cannot be serious in thinking about interposing an objection to our doing an agreement with our third largest trading partner." "No, no, it's not that, but we're still concerned with the political problem in Canada." And I said, "Well, you've got a choice. You can ask to be included." "What would be the reaction to that?" he asked. I said, "I don't know, but there is no reason you can't ask."

Well, there was a split in the Canadian Cabinet, because they had gone through something that looked like a rehearsal for our deliberations on NAFTA, with the tables turned, with Canadians arguing that their economic interest would be prejudiced, because the U.S. was much more competitive. Another argument was that Canada would lose its sovereignty, that they would have to give up their social security system, and that they would lose their economic independence. This of course was an old story, but it was all exacerbated by the free-trade agreement, and it became a white hot issue in Canada, culminating in the Canadian parliamentary elections in 1988.

Ten days before the elections I was in Canada, and met with a group of -- I was outside of the government then -- Canadian Deputy Ministers, and they were all very gloomy. They thought Mulroney was going down to defeat, and free trade was going down to defeat, but Mulroney pulled it out, and won an almost landslide victory. But still, there were people in this Cabinet that said, "Oh God, we don't want to go through this again. We don't want to have another debate on free trade." But ultimately, two ministers, John Crosby, who was the Trade Minister, and Michael Wilson, who was the Finance Minister, argued very strongly that they should come into the agreement, or rather that they should come into

the negotiations; they should seek participation in the negotiations and ultimately Mulroney decided they should.

Over Labor Day of 1990, President Bush was at Kennebunkport, and Brian Mulroney, the Prime Minister of Canada, was his weekend guest. And he said, "George, we'd like in on this negotiation." So that started another debate within our Administration, with some folks saying, we don't want the Canadians in this. First of all, their up to no good, they are really seeking to frustrate the negotiation with Mexico. They are going to be a problem. Canadians are very difficult. A whole series of objections. And interestingly, many of these were coming from the State Department. I argued on the other side of this, that we couldn't exclude the Canadians. Moreover, I found objectionable the notion of having two bilateral agreements. I didn't like the prospect of having many bilateral agreements, because at heart I was, and remain a multilateralist. And I saw these free-trade agreements as being not only an exception, but I saw the possibility of harmonizing them with the multilateral system ultimately. But if we had many separate bilateral agreements, you would have tremendous confusion in our own trade relationships, but also in the trading system.

Later on, in a somewhat different context, I took on this Ron Wonnacott metaphor of hub and spoke, and I said the prospect we were facing was not hub and spoke, but spaghetti. We had the prospect of many bilateral agreements by many countries. And I used the phrase at a conference on the subject, and I had a baseball cap made up which said, "NAFTA NOT PASTA." I was arguing for the extension of NAFTA to the Western Hemisphere, but not a series of bilateral agreements.

In any event, we had this all out within the Administration and then began discussions with the Canadians. We asked, "What if we can't reach agreement? Clearly, you're not going to be able to frustrate this negotiation with Mexico." And the Canadians said, "We have no interest in doing that." So ultimately we worked out an agreement with the Canadians and then a three-way agreement. The Mexicans then became very nervous, also about having the Canadians in. Although, interestingly one of the arguments against Canada from inside our Administration was that it would be two against one. That we would face two adversaries instead of one. I did not view it as that kind of negotiation, and in any event, we were bigger than both of them together, and I thought that was a silly argument. You didn't settle issues by majority voting, so that was kind of silly. But we worked out with Canada an understanding that no one party could effectively block the other two from proceeding. So if Canada decided that it could not agree, then it would step aside. If we couldn't reach agreement with Mexico, of course that would not prejudice the existing agreement.

So by middle September it was decided that Canada would be a party to this, which required an amendment to our fast-track notice to the Congress. This notice period then had begun, and I said, "O.K., let's get to work, and start exchanging information." We had a couple of meetings, but it was clear that nothing was really happening very fast. The Mexicans weren't really ready, and something that was to bother, almost plague us over

the next several months as we got into the negotiations was that the Mexicans had never really done anything like this, and were somewhat lacking in confidence and hesitant. Their decision process went right up to the top, so it was slow.

But then, of course came the intensification of work to try and finish the Uruguay Round at the end of 1990, the Brussels Conference, so we were spending more time on the Uruguay Round. The other thing that happened was that the fast-track authority was expiring, effective March 2, 1991. The expiry date was really June 1, but to execute an agreement we had to notify the Congress 90 calendar days in advance, so that would make it March 1 or 2. So we had to renew fast-track, and what happened then, was that the fast-track debate became a Mexico debate. Labor began to mount its campaign against it, and we spent just about two months, three months almost, in an intensive lobbying campaign with the Congress and the public to some extent, to get approval of the extension of fast-track. And incidentally, this was not an affirmative vote. The way the law read was that fast-track would continue unless the Congress voted against it. In any event, there would be a vote by the Congress. So in that period, we really accomplished none of those pre-negotiating objectives that I had intended. We got very little work done in that period. The Mexicans weren't ready and we were preoccupied. That lobbying effort was intensive, it ultimately succeeded, and by early June we had our fast-track authority.

We formally began the negotiations on June 12. We had our first ministerial meeting in Toronto, where we agreed on the organization of the negotiation. Basically the structure was three levels of negotiators. The three ministers at the top were the ultimate authority. Then three chief negotiators beneath them, that would have day-to-day responsibility for the negotiations. I was the U.S. Chief Negotiator, John Weekes for Canada, Herminio Blanco for Mexico. Beneath the chief negotiators, we had Deputy Chiefs and negotiating groups. We had 22 negotiating groups on all of the issues: tariffs, services, intellectual property, travel, business travel, investment, energy, etc.

The negotiations lasted 14 months to the day -- we began on June 12 and concluded on August 12. We had seven ministerial meetings and the Chiefs met 16 times in various locations in North America. And of course the negotiating groups met even more frequently, and for longer periods of time. The Ministers and the Chiefs typically would meet for several days at a time, although toward the end of the negotiations, the duration was longer and the end of the negotiation lasted several weeks. There was a Chief's meeting that went for almost a week. And then the Ministers came in and they met for 12 days and nights to finish the negotiation. All through this process, we also felt it was very important to carry out our consultation process and at the beginning of this, having in mind previous experiences, I instructed my subordinates keep detailed records on the meetings that were held. We had on the average one consultation a day with somebody in the Congress, with a member or staff people, and four a day with the private sector, with our advisory committee structure, which consisted of 1,000 public advisers. But additionally, with other associations, or anybody we could identify that might have an interest.

Among the groups we consulted with was the environmental community. One of the issues that came up in the fast-track debate was that early in the debate, Chairmen Benson and Rostenkowski sent us a joint letter, with a series of questions on how we would address various questions and criticisms. And out of that came a response that involved a number of commitments, things which we would do with respect to labor and the environment. As to the environment, this was a completely new subject to us; we had never dealt with this in a trade agreement. As a result of our consultations with the environmental community, what we did tactically was to divide the environmental movement between the extremists, the bomb throwers, and the reasonable people. And out of that came agreements, or an understanding of what we would seek to achieve in the agreement. And in fact, for the first time ever, we put environmental provisions into a trade agreement, the NAFTA.

Q: How did the Canadians feel about that? They used to complain about us; were they enthusiastic, or did they find that it was also inhibiting them too?

KATZ: Well, they were a little concerned in some areas about how far we were going to go, and of course the Mexicans were too. I should say also, again going back to the fast-track consideration, that we worked out some understandings with the Mexicans on labor and environment. There were some environmental programs along the border, and there was a memorandum of understanding on labor cooperation, which was less far-reaching than the environmental agreements. In fact, in the environmental agreements we actually proposed putting some money into cleanup.

As a result of our continuing consultations, it was concluded that those agreements we reached with Mexico in the spring of 1991 would not be sufficient, so we put some other things in the NAFTA agreement. For example, we had some hortatory language on the environment in the preamble, and we gave specific recognition to four environmental treaties, which would be given precedence over the NAFTA in the event of a conflict between the agreements. The environmental community was complaining that trade interests were being put ahead of the environment, and there had been a fisheries dispute where, in effect, it was perceived that the GATT was going to override the environmental agreement. So we put a provision saying that with respect to these four treaties and conventions, that they would have priority over the NAFTA on any dispute. We could add other international environmental agreements in the future.

We also had a provision that said that no party would use waivers from environmental laws in order to attract investment, which was an allegation that was extant. We changed the provisions of an agreement that was being negotiated in the Uruguay Round on sanitary measures, putting the burden of proof on the defending party, as opposed to the plaintiff party, with respect to disputes about such provisions. So we made a number of efforts to specifically recognize environmental concerns. Of course, these were not enough to satisfy the extremists in the environmental movement, but it did gain the support of some of the responsible organizations.

The other major issue to which I alluded earlier, and one of the particularly difficult issues in the negotiation was over energy. Energy policy, and in particular hydrocarbons or oil, had almost a mythological quality in Mexican politics. I remember some experiences in the '70s with President Lopez Portillo over gas exports from Mexico, where he described hydrocarbons as Mexico's patrimony. The Mexicans took the position early on that energy policy was inviolable, and couldn't be part of the agreement. We said, "Well, we understand the special conditions, but energy policy could not be inviolable, and that this was a comprehensive trade agreement, and must cover all of the elements of the economy. We would try to work around the special conditions in Mexico, but we couldn't just leave energy policy out. The Mexicans would not even admit publicly that there was an energy negotiating group. I had a shouting match on the telephone with Minister Serra, when Carla Hills was unavailable, because there had been a press story about the deliberations of the energy group. He threatened call off the negotiations unless I would deny that there was no such group, which of course I refused to do.

At the second Ministerial meeting in Seattle Serra came forward with a position which became known as the "Four No's": it was not possible to provide in the agreement for exploration or production of hydrocarbons; it was not possible to include transportation, primary petrochemicals, nor distribution. Neither foreigners nor private parties could own gas stations. Throughout the negotiations the Mexicans kept reminding us of the four no's, to the point where my Deputy, Chip Roh, who was kind of a wag, and a bit of a cartoonist, drew a cartoon with a face. At one meeting I kept hearing about the "No's," and asked where are ayes? What can we do? So Chip drew this cartoon of a face with a bulbous nose, with little squinty eyes, with a caption which said, "All no's, no ayes." And this problem was to dog us throughout the negotiations. We finally chipped away and we got an energy chapter in the agreement.

Q: Did the Canadians help in this type of thing? When the Mexicans nationalized the oil industry in Mexico, this was one of the crowning achievements of the revolution. So that in a way I would think that the Canadians, being neutral in this without these pejorative feelings, could come in and say, "Come on fellows, we're all doing this together." Did it work that way?

KATZ: The Canadian role was kind of interesting, and it evolved over time. At the very beginning, the Canadians were very passive. I think they saw their role and their mission as being defensive. They were supposed to defend what already existed in the bilateral agreement. As we went on and we had U.S.-Mexico problems, the Canadians would occasionally try to be helpful. But through much of it they were really on the sidelines. As we got to the end of the negotiations, there were a number of provisions that directly impinged on Canadian interests. In fact, there were provisions and issues that touched on the existing bilateral agreement, such as investment policy and cultural policy, where the Canadians became very active. And then agriculture policy, which was another very tough issue, that I will come to later.

One of the problems on energy was that this was an important issue in the U.S.- Canada Agreement. One of the concessions we got out of the Canadians was that they would not use export controls against us in an emergency, as they did in the 1974 energy crisis. That was hard fought, and hard won, and became a bit of a political issue in Canada. The Mexicans would not agree to anything similar. The Canadians then became very concerned that if the Mexicans would not agree, this again would become a political issue in Canada. And in fact, it did, when the Chretien government came in. Separately Chretien had said that they were going to tear up the agreement if they were elected to office. Then he said he would change it, and when he came into office he talked about it, and then there was a meeting with Clinton and they sort of swept it under the rug. But in any event, this was a legitimate concern by the Canadians, and a concern on our part, that if we acceded to the Mexican reluctance to agree on supply in an emergency, that this would put the Canadians in an impossible position and we would lose this benefit with Canada.

One of the evidences of this extreme paranoia on the part of Mexico over energy, was a provision they insisted on in the preamble to the energy chapter. The first sentence, which reads something like, "Each of the parties express their respect for their respective constitutions..." And that really stuck in my throat, and I said, "Come on now, you can't be serious." And they said, "We absolutely must have this sentence." And I said, "Well, is there any question that about each of us respecting our own constitutions? But implying that we respect other peoples constitutions goes too far." The Mexicans were insistent on the provision and insistent that it go into the energy chapter. I said, "Well, if it goes any place, put it in the preamble the whole agreement." "No, no, no," they said, "it had to be in the energy chapter." I said, "This is really silly the point of being childish." "Listen," they said, "trust us. This is something we absolutely need for our own politics." In the end, Carla said, "What the hell." So we went along with it.

Another major issue was agriculture. This was an issue primarily with Canada. Canada would not agree, as they were not agreeing in the Uruguay Round, to give up what was called supply management of dairy and poultry. That is, to have quotas on imports of dairy and poultry products. I, said to them, both in the NAFTA and the Uruguay Round, "Look, in the end you know you're going have give this up, because this is going be the price for the Uruguay Round Agreement." And privately, some Canadians said "Of course we will. In the end we will not stand in the way of this. But we just can't do it now." And the reason they couldn't do it, was that these products were produced in Quebec, so it was part of the Quebec issue. But they were absolutely unwilling to agree to this.

So in the end, we had a period of a serious questioning whether Canada would remain in the NAFTA negotiations. We said we were not prepared have an agreement without agriculture. Of course, in the U.S.-Canada agreement, the provision was that all tariffs would be eliminated. The quotas could be maintained. They had theirs, and we had some on our side. But in the Uruguay Round they were going to disappear, and we wouldn't agree to that formulation in the NAFTA. Mexico didn't have quotas and they didn't want any either. By then, they had gotten rid of their agriculture quotas. So ultimately, what

was decided was that Canada would be excluded from the agriculture part of the NAFTA. So the NAFTA covers everything except agriculture, where in effect, there are three bilateral agreements: U.S.-Canada; U.S.-Mexico; Canada-Mexico. This is one of the shortcomings in the agreement.

An interesting consequence of that, not so much of that, but of the U.S.-Canada agreement, was something we saw coming. In fact, the Canadians had raised it with us. They said, "Now, if we ever agree to eliminate the quotas through tariffication in the Uruguay Round, we will have a problem with the FTA, the bilateral agreement, because that requires that all tariffs be at zero. And of course the elimination of quotas would mean substitution, conversion of tariffs. So we would have a problem." And I said, "Indeed you will. But are you prepared to talk about tariffication?" And they said, "No, we can't agree to discuss tariffication." And I said, "Well, then, there is nothing to talk about." So we never did talk about it. And then ultimately, and not surprisingly, Canadians had to agree to tariffication in the Uruguay Round. They have to eliminate their quotas. They've substituted very high tariffs for those quotas. And now there's a problem under the Free Trade Agreement. It is now going to dispute settlement, the U.S. is bringing a case against Canada for violation of the agreement.

Q: Did by any chance while you were doing this whole thing, look at this as a model agreement that could be used? Was this really your objective?

KATZ: Absolutely. We had in mind, first of all, producing as good an agreement, I mean as close to perfection as possible. We knew it would be well short of perfection, because there were inevitable exceptions, not only on agriculture, but on investment policy and culture in Canada. And we had some exceptions on our side, on investment policy. The Mexicans, of course had their exceptions on energy and investment.

But the other thing that happened was that in 1991, President Bush delivered a speech on hemispheric policy, and it became entitled The Enterprise for the Americas, where he laid out a policy which invited free trade agreements in the hemisphere. We had a vigorous bureaucratic argument about that. Again, there was this view in the State Department, Bob Zoellick, primarily, and also shared in the Treasury and Commerce Departments, that we should negotiate bilateral free-trade agreements with everybody. And I thought that we should seek to do it with large countries, or groups of countries, that is, we should encourage subregional integration in the hemisphere. What ultimately came out of it was compromise language that we are prepared to do agreements with countries or groups of countries. I can't remember the exact language, but the implication was that it would be with large countries or groups of countries, even though it didn't say large countries. My concern was the State Department would then use this as a political prize. And in fact the question came up of doing a free-trade agreement with Panama, which I thought was ridiculous.

That was the beginnings of discussions of free-trade agreement with Chile. The other point that was made in the President's Enterprise for the Americas speech was that we are

prepared to enter into these agreements with other countries, but our first priority was the Uruguay Round and the completion of an agreement with Mexico. So this was June of 1991. But for that reason, you are very right, that we did have in mind that Mexico was going to be a precedent, and we wanted it to be a good agreement. Ultimately it turned out to be a very fine agreement. Trade policy experts around the world agree that it is a good agreement, with some exceptions, primarily the rules of origin.

There are two rules of origin, which people have taken issue with. They are bad examples, although I think they are not terribly important. They are on automobiles and textiles. They are restrictive. On textiles there is something that is called double or triple transformation. Typically a rule of origin will require a transformation from one stage of production to another. In the case of textiles it isn't enough to be the fabric of a NAFTA country. It has to be the fiber; U.S. fiber or North American fiber. In some speeches after the negotiations were completed I facetiously said that it wasn't true as some people had alleged that woolens have to be the fiber of sheep that have spent at least three generations in the United States. But it was pretty restrictive. On the other hand, the volume of our imports from the world are so large I don't think this is a serious impediment.

Similarly with respect to automobiles, the requirement is 62 percent value added as defined in the agreement, which is very high. Normally it is 50 percent value added. But given the volume of our imports in the United States, cars from Japan, I didn't think that was a serious criticism. The question is now why is it 62 and not 61 or 63, or 60? The reason is because it's between 60 and 65. And because of the insistence of the auto industry, we sought 65. The Canadians were the primary protagonist. The Mexicans supported them, but not all that vigorously. The Canadians were willing to go to 60, and we ultimately compromised on 62.

This led Red Poling, the CEO of Ford, to scream "sellout." And the night that we concluded the negotiations Carla telephoned him to say that we got 62, and he began to scream, and Carla finally said, "Well, you talk to Jules Katz." So he got on the phone and said, "You know, this is absolutely unacceptable. We said 65 and we mean 65." And I said, "Mr. Poling, I don't understand what you are saying. It's just incredible to me that you are making this fuss over three percentage points on a tariff that is 2 percent. The MFN rate for automobiles is 2 percent." "Well, it's a matter of principle," he said. And I said, "Well, I'm sorry Mr. Poling, but we're dealing with a very practical circumstance and that's the way it is going to be." So we got blasted on both sides, although the other companies weren't as strident about it. But this is part of the last minute complications.

Q: Well, it's also a bit of the theater, isn't it?

KATZ: Oh, he was dead serious about it. In fact, I was in a subsequent meeting with him where I debated him on this point. He was not quite as strident, and everyone else smiled. I had to hold back from ridiculing him.

Well, there are a lot of other little side-bars in the negotiations. The investment provisions were very difficult with Mexico, and then ultimately with Canada. But to be fair, the U.S. had some exceptions on things where we had provisions of law on such things as maritime on which the U.S. took an exception and on ownership of airlines and ownership of telecommunications and radio and television stations.

Q: We felt these were essential our national defense?

KATZ: No, it was pure politics. We weren't prepared to take on everybody in the country in the legislative process. We knew we would have a difficult enough task -- more difficult, it turned out even than we had suspected.

I would make one other overall comment, and that is that I started out by talking about how skeptical I was about how far the Mexicans were prepared to go, and I was wrong about that. The Mexicans were prepared to go farther than I had suspected. But I think in the end they went farther than they had believed they would have to go. Their policies and approach really evolved through the negotiation.

One of the things I came to admire greatly was the approach of Minister Serra, who was really a major figure. He, like many of our Mexican counterparts was highly intelligent, a Pd.D. economist. I think his Pd.D. came from Yale. He had taught at Stanford. An extremely bright man; extremely volatile too. He could blow up frequently. But typically his approach to an issue would be say, "Well, wait a minute. Let me understand it. Why is this important to you?" And he would listen, and say, "O.K., I understand, but let's see if we can't find another solution." There were innumerable occasions when he approached matters in that fashion.

All of the Mexicans on their team were very bright. They tended to be young, they were not terribly experienced, either in trade agreements, or even in negotiations. Many of them had been recruited from universities and banks for this negotiation. So they were really going into it as on the job training, as it were, while conducting the negotiations. And that, in part, accounted for what I impatiently regarded as delay. But with it all, we produced an agreement that was 2,000 pages in length in 14 months, covering every aspect of the economy. I think that was a pretty impressive job.

Q: I have heard in other interviews, although I've never dealt with Mexicans, that in the Mexican government the Foreign Ministry has been turned over almost to the anti-Americans, whereas most of the other ministries, like the Ministry of Finance, are people who are used dealing with the Americans all the time. Did you get any feeling about this?

KATZ: Yes. I have had that experience in the past. I certainly had that experience in the late 1970s, when I negotiated with the Mexicans on energy policy. The interesting thing in this negotiation is that the Foreign Office played no role. This negotiation was conducted primarily by SECOFI, which is the Trade Ministry. But at a very early stage, in

fact, even in the preliminary stage at that August 1, 1990 meeting in Los Angeles, Serra said, "One thing I want make clear: I have the primary responsibility within the Mexican government for this negotiation. Who will be my counterpart? Will you, Carla, be my counterpart?" And that was agreed. Now they drew on the other agencies, but where issues developed with the other agencies, it was clear that Serra was in charge. Serra would go to President Salinas if there was an issue. And within our government, we ran the negotiation.

I must say, the only real problems we ever really had, were with the State Department, and that was with Bob Zoellick. There were a number of occasions where the Mexicans tried to do end-runs, notwithstanding Serra's one-stop shopping approach, with the Chief of Staff of President Salinas. There were a number of times when he did end-runs when he would go to Bob Zoellick and complain about me or about our positions. Bob Zoellick being the Under Secretary for Economic Affairs and the Counselor of the State Department. He was pretty discrete, making clear he wasn't going to interfere in the negotiations, but why was it we were taking this unreasonable position? Carla was probably more irritated by those events than I was. But with the rest of the government, we really had very few difficulties. Our team was made up from many agencies of the government. These 22 negotiating groups were in many cases led by people from other agencies of the government: Commerce, Treasury, State Department, Labor -- those were the primary agencies.

There was one particular meeting which was noteworthy that I might describe. That was in February 1992, after we'd started these negotiations in June, and had meetings in July and August. There was a period of several months when we were doing a lot of exchanging of information on tariffs and regulations and so forth.

In my effort to speed the negotiations along, I wanted the drafting process to start right away, so it was agreed in September or early October, that we would actually start drafting chapters. And the three delegations went off and wrote chapters individually, and then they came back in December. And then there was a meeting at the Deputy Chief level and lawyers, primarily, that set about to take the three versions and put it into one document. So in some cases you had chapters that consisted of three versions of a chapter sequentially. But they then began trying to take out words and merge paragraphs, to begin to produce this document, even while the issues were still being discussed. That was part of the process also, of identifying issues.

It became clear that these negotiating groups were negotiating individually, and we the chief negotiators had some difficulty in getting our arms around the process. So we decided on a meeting where we would have everybody together at one place at one time, which was kind of a big enterprise. We had separately had a political problem with various communities along the border, that wanted to be the location of NAFTA, and there was a group of people in Dallas, who were very aggressive; very purposeful I should say, but also aggressive, saying that Dallas was going to be the Secretariat of NAFTA. We said there wasn't going to be a Secretariat in any one place. "Well, never mind, but we

insist on this." So they sent a delegation, consisting of Mayor Bartlett, to see me, to make this pitch. "We want to have the negotiations in Dallas." "Well," I said, "We have these meetings in various places, and people are meeting all the time, sometimes in capitals, sometimes in other places. We will have some meetings there."

But we decided we needed to have this big meeting, and the question was where could we have it? And Dallas stepped right up and said, "Hey, we'll do it." And we said, "Well, it's going to be pretty big." And they said, "No problem." They gave us the top floor of the Design Center in Dallas, which is a big vacant floor where they put up temporary partitions and they provided hotels and arranged with American Airlines to provide discount fares and put on social events, which we tried to avoid. But we finally had to agree to have a breakfast and a banquet. In all, they put up about \$500,000.00 for this meeting. And I don't know how we would have done it otherwise. Then of course, I got into trouble with the ranking member of the Ways and Means Committee, Mr. Archer, who came from Houston. He was pretty agitated. He is now the Chairman of the Committee. Fortunately it hasn't affected my long-term relationship with him.

Altogether we had about 400 people at that conference from the three governments, with about 120 from the U.S. But that was a milestone in the negotiations, because that was the first time we really began to start dealing with issues and resolve issues, and identify others. But we began to narrow the issues to the point where we could begin to see thousands of issues, not tens of thousands of issues. The process was that the negotiating groups would meet. They would then report to the Chiefs and say "Well, here are the problems we have in our chapter." And then the Chiefs, with some subordinates, would then discuss them, try to find areas of agreement, and that would be incorporated, and where we couldn't we'd set it aside and say, "O.K., here's where we have some ongoing problems." And that was a week-long meeting, from Sunday to Saturday morning, a milestone in the negotiations.

Q: How did you find the role of President Bush? Did he say, "do it," and then get out of the way?

KATZ: Yes, that was basically his style. But there were a few occasions -- we reported to him constantly -- but there were some issues we brought to him. On the energy issue, there was one meeting somewhere along the border, where he met with Salinas and Bob Mosbacher was present. Salinas raised the energy issue, and the President agreed that we would be respectful or sensitive on the energy issue. The Mexicans interpreted it one way, and we interpreted it another way. But in the end, he was less involved in it than he was in the Uruguay Round, for example, where he became much more involved in specific issues, namely the agriculture issue. There were very many issues that were extremely difficult. It was a matter of constantly working the issues. In February we had thousands of issues and in May in Mexico City we had maybe one thousand issues and when we got to the Watergate in July we had hundreds of issues. In the last several days we had about 150 issues, then 50, then 25, and then 4 in the last hour, and then finally resolved those.

Q: You came up with an agreement. But you had left before the big battle in the public came about?

KATZ: What happened was, we reached agreement at 12:40 am on August 12, 1992. Then there was a period of fine tuning the text. The text had to conform to the agreements, and it had to have legal scrubbing. And that went on for weeks and weeks and in fact, it ended up being months. But our target was to initial and sign the agreement. I believe the initialing was on October 7th in San Antonio. There was a ceremonial initialing of the agreement with the three Ministers, the three Heads of Government standing behind them, and a lot of private sector people. The agreement was ultimately signed on December 7, because there was another 60 day waiting period. There was no formal ceremony for the signing; that was really anticlimactic. But then we left office.

President Clinton had been somewhat ambivalent in the campaign. I shouldn't say ambivalent, he was really quiet on the subject. And there was a certain amount of goading from the Bush campaign, saying what is Clinton going to do about NAFTA? He's ducking the issue. Finally, late in August, or early September, he made a speech in North Carolina in which he endorsed the Agreement, but said that there were a number of issues that would have to be dealt with to make it acceptable to him, basically on labor and environmental issues. And some issues that were covered in the agreement, which he didn't seem to realize. In fact, someone told me later that they told him that the provision was in the agreement, but he said never mind, he was going to say it anyway. (A safeguard provision that was already in the agreement.)

Then came the election, and he came into office. The Administration then set about to negotiate some side agreements with the Mexicans primarily, but also with the Canadians on labor and environmental provisions. And that was a long, extended process. That lasted until August. It was a rather bitter negotiation. The Mexicans were very unhappy with Mickey Kantor, in particular, over this. But finally that was done, and then the question was getting this through the Congress. Opposition was building all this time. Even though I was out of the government then, I was fairly active in terms of making speeches in support of the agreement; a lot of television appearances. And then Ross Perot got into the act too. But the President really delayed and delayed, and then finally he got into it, and that made the difference in terms of mobilizing the support. Of course, the key event was the Gore-Perot debate, and interestingly, in May of that year, I proposed to the business coalition supporting the agreement that Perot be challenged to a debate.

Q: You were saying coalition. What coalition was this?

KATZ: This was a business coalition in support of NAFTA. I think it was called "NAFTA Now." It was primarily led by the Business Round table and some other business organizations were working for it. But I called the NAFTA coalition, and said, "You've got to get somebody to challenge Perot to a debate. You can murder him. He obviously doesn't know what he's talking about. He's inconsistent." In fact, when he appeared before the Congress, they said, "Mr. Perot, you don't like this agreement." And

he said, "No, that's not true. I believe in the agreement. I just think it needs to be changed." They said, "Well, how would you change it?" He said, "I hadn't thought about it." So the Coalition people said, "Who would you get to debate him? Would Carla Hills do it?" I said, "Well, I don't think she's the right person. I think you need to get someone more in the political arena. What about Senator Bill Bradley from New Jersey?" "Well, let us look into that." And then I called Bradley's office. In fact, I had talked to Bradley earlier. I had appeared with Bradley before an audience. So I called this contact and I said, "Do you think the Senator would go for this? You may hear about this, because I've stimulated this possibility." They thought he might very well agree to it. I heard nothing further, and nothing happened.

Incidentally, my activities in this regard were somewhat limited, because I'd gone into business with Carla Hills, and we decided that we were not going to do lobbying as such, that we would not do lobbying in the literal sense of the term. But we could speak out as public citizens, which is what we did, and on request met with members of Congress. So my role was active, but limited in that regard. But then, suddenly Gore volunteered to debate Perot, and a lot of nervousness prevailed. I was somewhat nervous about Gore doing this, because I wondered if he had the personality.

Q: He has sort of a wooden delivery, for those that don't know it. He does look like he's wound up. It's funny.

KATZ: That's right. But he was equal to the task, and he destroyed Perot. That was a major turning point. And the other thing that happened that I thought was a major turning point was a week before the vote, the President kind of took the gloves off, and he took exception to the campaign by Labor. He directly criticized labor for the vicious campaign that they were waging. That kind of provided a shield for some people in the Congress who were a little nervous about taking on Labor themselves.

All through this, I have to say that I felt that we would win, until about the last four days or so, because the Administration was doing a lot of wheeling and dealing. They had promised, for example, one Congressman that they would have a development bank along the border, that became the NAD Bank, the North American Development Bank. And the word was, "Well, that got his vote." So one bank, one vote. And obviously there weren't enough banks to get 218 votes in the House. We knew that the Senate would not be a problem; the problem was in the House. But, it began to turn around on the weekend before. By Monday it was pretty clear we were going to win. I think the vote was Tuesday or Wednesday, and of course we won fairly big. We won with 236 votes in favor. The Senate vote was anticlimactic, so it came about.

Q: Should we turn some other things now? We'll pick this up the next time, and we're going talk about Russia, the importance of intelligence toward negotiation, the work of embassies, Commerce, and one other one that came to me that you might think about in between was, you were over this a long period of time, about 40 years off and on, on

various types of negotiations. Did you see a change in negotiating style, or negotiators, as far as Americans are concerned, or other people? Something to think about.

Q: Today is the 30th of October, 1995. Jules: Russia. Negotiating and dealing with Russia, particularly when it was going through its time of turmoil. Compare and contrast.

KATZ: After I had left Eastern European Affairs in 1963, I had not dealt with the Russians for a very long time. It was from about the 1950s until I encountered them again in the late 1980s. I remember one meeting I had with a young Russian. I'm not sure what his status was. I think he was here on a fellowship. I was at the time working at the Government Research Corporation, which was a consulting firm, and he somehow got my name and came to see me about the GATT. He was doing some research on the GATT, and I was curious about this. I said, "Surely you're not thinking that the Soviet Union might try to accede to the GATT." He said, "Well, you never know. We just want to know what would be involved."

That was sort of the first clue that I had of some fresh thinking about the role of the Soviet Union in the world economy. He did say, "Surely, we would not be eligible at this point. That is, our economy would not be suitable. But you just don't know how things will develop, and we're trying to do some thinking about this." He was not with the government, I don't believe, at least not formally. He was with one of the research institutes over there.

When I took office in USTR, in 1989, I had to go to Moscow in late 1989 for an annual review under a so-called grains arrangement. This was an agreement that went back to 1963, when the Russians had a very poor harvest. Not the first, but one of many. But that was a particularly acute situation, and it was at the early Kennedy Administration, and the Russians wanted to buy wheat from the U.S. We had a ridiculous policy in force, which went back to the Eisenhower administration. The policy provided that we would not sell or subsidize the sale of agricultural commodities to the Soviet Union. During the Eisenhower Administration, the Russians had asked to buy some butter, and after much deliberation, the Secretary of Commerce at the time, came out of a meeting at the White House, and announced that we would not subsidize the Soviet housewife. Well, that's perfectly ridiculous, of course. What we were subsidizing were our own farmers.

An opportunity to sell some surplus groceries should have been welcomed. If we could sell them at world prices and recover some of our budgetary losses, we should have welcomed the opportunity to do so. But, that policy stayed in effect until 1963. And then there was a lot of toing and froing about changing the policy; there a lot of angst in the Administration, again, for reasons I can hardly understand. But finally, Kennedy made the decision that we would sell them grain. But in the political deliberations and trying to get support for this, the labor unions entered the picture.

In any event, a condition was laid down that the Russians could buy wheat in the United States, but they had to ship a large part of it on American flag ships. That came about almost as an accident, I think, because Tommy Thompson, who had been one of the legendary American Ambassadors to the Soviet Union, one of a group of foreign service officers who specialized in the Soviet Union -- Chip Bohlen, Tommy Thompson, George Kennan -- a number of people who were early Sovietologists, was, at the time an Ambassador-at-Large in the Department and he was asked to undertake discussions with the Soviets. He had several meetings with Ambassador Dobrynin, and he was asked to put this question to Dobrynin about how were they going to ship this wheat? Dobrynin said, "Well, on ships of course." He didn't really understand the question. And then Tommy said, "Would you be willing to carry the wheat on American vessels?" He replied, "Well, it doesn't make any difference. We just want the wheat."

Thompson reported back, and the immediate question we in the Economic Bureau had -- and I had just then moved the Economic Bureau, since I had previous experience with the Soviet Union and Eastern Europe, I was brought into this discussion -- I immediately asked did he understand that the cost of American shipping was about twice what it is for foreign shipping? And Thompson said, "Well, I'm sure he does. The Russians are not unsophisticated people. He must know this." Well, we were unpersuaded, and had him go back again. And, of course, there was a problem.

The final deal was that they would ship half on American bottoms and we then effectively subsidized the differential cost. This agreement then took effect and it stayed in effect for at least until 1989, and then it was a matter of renewing it annually. So I went over to Moscow for this negotiation. It also involved required minimum purchase commitments by the Russians. The theory was that since we agree to supply them with wheat, they should also agree that they would buy minimum quantities. But in fact, they were buying much more than the commitment, so it was kind of a meaningless agreement.

In any event, this gave me a brief view of Moscow in the late '80s. It was as dismal as I had remembered it from earlier visits. It wasn't really clear to me -- I was only there several days -- the extent to which it was falling apart. But it was clearly about as bad as any third world country. Things just didn't work, except for the modern new airport which had been built by the Germans. That I found kind of impressive. I had an experience with a young Russian at the time, who was from the protocol part of the Foreign Office, who, on my departure, gave me VIP treatment in a special lounge. I had to wait a while for my flight. I fell into conversation with him, which was rather interesting. He was talking about conditions there, and how, in visiting his family in Leningrad, it was almost impossible to get airline reservations unless you knew somebody who knew somebody. His aspiration was to get a foreign assignment, because it was so difficult living in Moscow. So it was clear there was a lot of unhappiness.

The other thing I remember about the Soviet Union, and this was a little earlier, probably in 1988, I had lunch with former Secretary William Rogers. I had seen him earlier in the

'80s on some legal business involving the firm that I was with at the time. He had invited me to lunch to talk about possibly doing some work together on a case in London involving some commodity trading on the London Metal Exchange. But in the course of talking about the Soviet Union, Gorbachev at the time was in office, and glasnost and perestroika were at their beginnings. He said, "What do you think about what's going on over there?" "Do you think the openings are reversible?" I said, "It looks like there are some serious changes that are going on there. I'm not quite sure they are going to go back to where they were before."

Rogers said, "Well, let me tell you a little story." Earlier in the spring, he was in Moscow, with some of the old boys, Callaghan of the U.K., Helmut Schmidt of Germany, and Giscard D'Estaing of France. They had a meeting with Gromyko, who was then still President. This was something like April, and then in June at the Party Congress, resigned as President. But he was still President at the time, and after exchanging pleasantries, Gromyko said, "Well, what would you like to talk about?" And they said, "Well, tell us what's going on here? There seem to be some interesting things going on in your country." And according to Rogers, Gromyko said, "Well, it's very simple. We have come to a point in our history where we can no longer feed, clothe, or house our people. Something has got to change." This was Gromyko, the old Bolshevik. I was never quite sure he was actually a Bolshevik. He may have been a little young for that.

Q: But he was the Ambassador at the very end of the war.

KATZ: He was Ambassador here. He was Ambassador of course, to the United Nations at its beginnings. He was Foreign Minister for a long time. He was sort of a stony faced, hard line Soviet Communist. So that was kind of a revelation. And in this affair in 1989 on grains, as I dealt with the Russians, they certainly seemed different from the people I had known before. They were not quite as hard, somewhat easier to deal with.

Then in 1990, it was decided that we would negotiate a trade agreement with the Soviet Union. Now, we had a law on the books that went back 1974, the so-called Jackson-Vanik amendment, which prohibited the extension of most-favored-nation tariff treatment unless the President certified that there was an immigration policy which was reasonably open. Most favored nation treatment had been denied to the Soviet Union and communist countries after 1951 when there was a change in U.S. law. Until that time, we had an unconditional most favored nation treatment with all countries. But it was taken away from the Soviet Union and the other communist states in 1951, except for Yugoslavia. It was restored to Poland in 1959, and then taken away again once in the 1980s. But in any event, for the Soviet Union, the problem was Jackson-Vanik. By 1990, of course, there was no problem on immigration. People were leaving pretty freely.

The other problem was that we had to have a trade agreement. There was an attempt at an agreement in the Nixon administration, in 1972. In fact, there was a trade agreement negotiated at that time, but it never came into effect because of the Jackson-Vanik problem. But in 1990, I then initiated these negotiations with the Soviets, and a

delegation came to Washington. We presented them with a text, which was a rather lengthy text, dealing with a whole lot of questions that were very strange to the Soviets, such as the protection of intellectual property, patents, and copyrights, and provisions on exchange controls, commercial representation. There were a whole lot of things. The head of their delegation was a man named Chumikov, who was a Deputy Minister for International Trade. He didn't quite know what to make of this. And he said, "Mr. Katz, I came over here for a trade agreement. You give me this document -- I don't know what do with it."

We had a series of meetings. I believe we met in February of 1990, and then we met again in Paris, and in Vienna, and I think probably once more in Washington. We reached agreement. We had some people go to Moscow on technical issues, particularly intellectual property, which was pretty difficult for the Soviets. But in the end, we produced the agreement. There was one hiccup there: I believe it was before the Paris meeting, the Russians sent some troops into the Baltic. There was a question as to whether we would have that meeting. I didn't really know until the last minute whether we would have the meeting. But we did, and other than that, the negotiations themselves were remarkably smooth compared to my previous dealings with the Soviets. And then in June 1990, it was signed at a ceremony at the White House, where a whole series of agreements were signed.

That night, I gave a dinner for the two delegations, and had some interesting conversations with Mr. Chumikov. He was very pleased with the whole affair, and he said, "Mr. Katz, when you gave me that agreement at first, I didn't know what you were doing. But you know, this is the best agreement I've ever negotiated. It's the best agreement we ever concluded." And we talked about the changes that were going on in the Soviet Union. Things were happening very rapidly by then and he was not quite sure what to make of all of that.

At one point in the conversation, he said, "You know, people compare the Soviet Union to Poland. But it's completely different. We have a different kind of population, no sense of discipline. You know, Stalin did some bad things. But he was really a very clever man. And the country really worked under Stalin. Then came Brezhnev, and Brezhnev was a disaster. When Brezhnev came, everything fell apart. Discipline completely collapsed and we had chaos." He was kind of reminiscing for old Joe Stalin. The last I heard of Chumikov, he was a sugar trader. He was trading sugar for a private business. That was kind of an interesting end to it all.

Q: It sounds like there was an earth change in the way the Soviets negotiated, because before, from what I understand, was that they would basically say no to everything until the last minute.

KATZ: Basically, there was not a whole lot of imagination. It was all kind of scripted. They had formal positions which they read and reread, and only at the last minute would they yield grudgingly. There was no effort to solve problems in the way other negotiations

are held. You confront a problem, and the two negotiators say, well, O.K., I understand your position, and you understand my position. Now how are we going to solve this? Where are the areas where we can find agreement? What if we do this, or change this dynamic or variable? That was very difficult with the Soviets.

What was interesting about this trade negotiation, was that it was not just the dynamic between Chumikov and myself. Some of the other people on the delegation -- my people were able to deal with their counterparts on the Soviet side, particularly in the intellectual property area, which was kind of difficult for them, because they did not have anything like world class law, on patents or copyrights. Copyrights were especially difficult for them. So it was a matter of conceptualizing and innovating as they went along. The character of the people was changing. These were younger people. Not altogether -- an interesting thing about intellectual property is that there was a professor that they had borrowed from one of the universities, who had apparently done research on this. He became rather important in this negotiation. He was also a bit of a wheeler dealer and that was a complete change in character from negotiations that went way back.

I had heard stories about the disarmament negotiations, where some of that went on as well, where there were differences between the Foreign Ministry people and the defense establishment. And to some extent, the U.S. Defense Department dealing with their counterparts, and the Foreign Office people were dealing with theirs. This is obviously not something that happened overnight, it obviously had evolved over the decades.

Q: Moving to another subject, have we talked about the Chinese at all? Did you have any dealings with them?

KATZ: Not very much, and I've really had very little experience with the Chinese. I did go there in 1977, before the opening of diplomatic relations. We still had an Interest Section. I went there with the Secretary of Agriculture at the time, Bob Bergland, and it was kind of a fascinating trip for me to see China. But it was still fairly closed. We visited the capitol of Sichuan, Chengdu, and I think were the first foreigners there. We were certainly the first Americans to visit there, and perhaps even the first foreigners. We were as much the object of curiosity by the local populace as they were for us. A racially different people, and it was fascinating to be there. But in terms of doing business with them, very little. I then was there again, about 15 months later, with Mike Blumenthal, the Secretary of the Treasury, and it was just interesting how much things had changed in 15 months. For one thing, the Friendship Store, which was a store open to foreigners, the second time took American Express credit cards, something they didn't do the first time. In fact, on that second occasion, Blumenthal was the senior American official present when the Embassy was officially established, because between the first and second visit, diplomatic relations had been established.

That was a matter of some embarrassment to me, because when I came back after the first trip, '78, I was asked meet with the Export-Import Bank Board. The President of the Bank had me over for lunch, with his Board present. They were very interested in China, and

my impressions. And they asked about diplomatic relations, and I said I was rather skeptical that there would be any early establishment of diplomatic relations; that there were a number of problems, and it just seemed to me that the formality of diplomatic relations wasn't really necessary to do business over there, either political or economically. I thought it was off a ways. And then at about 5 o'clock, my Deputy came in to see me, and he said, "You know, there's something going on; an awful lot of telephoning going on." He'd heard something from the Hill, and shortly thereafter, Carter announced the opening of diplomatic relations. I called the President of the Bank and said, "There's no reason for you to believe anything I ever say again."

When I was at USTR, that was a part of the world that I had no formal responsibility for. My colleague Linn Williams at first, and then later his replacement, Mike Moskow, had responsibility for Asia. My responsibilities were the Western Hemisphere and Europe, and multilateral negotiations, and that was quite a lot. But there was one occasion when there was a Chinese delegation visiting. For some reason I took the meeting. I don't know if that was during an interregnum or my colleague was away. But there was a series of trade problems. There had been and continue to be with China. I met with this delegation, and one of the problems we were dealing with was the large imbalance in trade, but particularly the Chinese restrictions and discrimination against American firms. I recall I had information that they had specifically decided not to deal with AT&T in favor of a foreign telecommunications provider. My counterpart across the table denied this. Then I had this information, which I think incidentally came from intelligence sources. It was pretty solid information. I think it was something somebody had said. Anyway, I confronted him with this, and his delegation and they registered complete consternation. They went into a huddle, and then he said in effect, "Where did you get that information?" But I had no sustained contact with the Chinese. There was no one particular project that I had with the Chinese.

Q: About this information you got -- I wonder if we could talk about two things; One, the assistance that you got in your negotiations from our embassies. In other words, they are picking up things on the street -- I'm talking about overt information. And then the other one, about perhaps anything that came through, you might say, covert sources. But negotiations are information. Where people are coming from is very important. Could you talk about that?

KATZ: Well, I'd have to say that the performance of embassies over the years was mixed, and depended a lot on people. Some people were better than others. Some embassies were better than others. Some were more plugged in. Sometimes it was not altogether the fault of the people there, but in the circumstances. For example, in the communist countries, there have been a lot of times when embassies have had more difficulty in dealing with their counterparts, to the governments to whom they were accredited, than did visitors. I've known many American ambassadors who kind of resented the access that the officials of the other government had to American officials in contrast to their own access. But there were a number of cases where American diplomats abroad were there because they were particularly able, or had good contacts, or were especially aggressive, and

therefore had insights into the thinking and the intentions of the other government. They were quite important to us. But there was a mixed performance. I can recall people who I thought were exceptionally able. I can think of people at the other extreme. And most of them were in the middle.

Q: What would be the sort of thing that an embassy could supply you that would be of value?

KATZ: The first thing is that the embassies needed to do was to convey messages. On instruction, they would go in and present the U.S. view, and not just present a piece of paper, but go in there and be able to discuss it, to argue from a brief. With the growth of communications and travel, that role declined in a lot of cases, particularly as we got into more and more rather technical subjects. But the other thing that embassies can provide is an understanding of what's happening in the other country; the policy and the views of the other country; who the players are; what their personalities are; how to deal with them, how to be effective in negotiating with them. What we call biographic information. And some of that, of course, comes through intelligence sources too. In fact, intelligence really pulls a lot of that together, whether it comes from embassy sources, or from their own sources. A lot of it is just overt. But it's become increasingly rare that embassies will be players in the negotiation. That was different in the old days. Ambassadors would be negotiators themselves. That has changed, because you can get on an airplane and somebody can be in the capital of the other country within 24 hours.

Q: Was it common practice before you would enter a set of negotiations, that you would go out to embassies, and ask, "How do you think this is going to play?"

KATZ: I'd say that's pretty rare. It will depend on the subject, but in most cases, particularly on economic subjects, the American officials know their counterparts in the other countries. If they don't, they may visit the country and the embassy will be involved in that sense. But a lot of the discussions are bilateral, or a lot of them are multilateral discussions. Whether in the GATT, the OECD, or in other regions, other regional fora, so that the U.S. agricultural officials know their agricultural counterparts abroad. The Treasury and Finance ministries, the trade people call them the mafia. They are highly exclusionary. Treasury has attachés in most important countries where there are financial centers or are important trading partners with us. They operate within a very closed circuit. Trade officials certainly know their counterparts. So the role of embassies clearly has diminished in that respect. Even in things like economic reporting. Years and decades ago, we used to depend on embassies to understand what was happening in the economies of the countries. That doesn't happen as much any more.

In my experience in the Bush administration, 1989-1993, as compared pre-1980, I don't remember reading very many reports from embassies. I spent a whole lot of time trying to learn what was happening in one economy or another, because I would read it either from the London Economist or some other publication, or just the daily press. There's so much

information out there. Embassies can't produce it as fast, or necessarily even have insights that are not publicly available.

Q: What about the role of intelligence? Did this play much of a role?

KATZ: That's become a story in the news very currently.

Q: You're talking about a wire-tap the CIA supposedly did for automobile negotiations with the Japanese?

KATZ: Yes. There have been stories about how the role of intelligence affected the outcome of the auto negotiations with Japan. Let me say that in my view, the role of intelligence in economic negotiations is marginal at best. Again, it provides occasionally some insights into how people are thinking, but contrary to beliefs and assertions in the case of the auto negotiations, intelligence can almost never tell you what the bottom line is of the other country, what their negotiating position is. You may know what their negotiating position is at a given moment in time. Usually you know it after the fact, because intelligence is rarely real time. But the reasons you don't know what the bottom line is, is that the negotiators rarely know what their bottom line is. Negotiation is a dynamic process, and positions evolve. Generally, you know what your objectives are, and you know what you are seeking, but what you'll settle for in the end is uncertain.

You may go into the negotiation saying, "By God, unless I get this, it's no deal." One of the expressions that was frequently used in the Uruguay Round was "No deal is better than a bad deal." That was a mantra. But that is ridiculous. Obviously, no one wants to agree to a bad deal. But the object of a negotiation is to reach an agreement, and your views on what the balance is, is constantly evolving. I have to say that these recent stories that have come out, and the debate over the role of intelligence in economic and commercial relations strikes me as an institution in search of a mission. It is a post-cold war phenomenon. And I'm deeply suspicious about the source of these stories. It's either CIA itself, or maybe it's the current USTR seeking to demonstrate how smart he was in the auto negotiations, and what a great deal he got, which is all a bit of hyperbole.

Q: Speaking of negotiations, is there such a thing as a negotiating victory?

KATZ: Sure. You seek agreement to advance your interests, but it's really not a zero-sum game. In a good negotiation, the best outcome is where both sides win, and where both sides feel satisfied. A bad deal is not in anybody's interest. A bad agreement would tend to be unstable. There are times clearly where one side will put something over on the other. But in general, I would say that a good agreement is one that has something for both sides. It doesn't have to be completely balanced. All people are not equal. Countries are not equal. That doesn't mean that the big country always gets their way. Sometimes that small country gets more than the big country.

Q: Did you find yourself in negotiating concerned at times that maybe you were putting something over on the people they didn't know, and this could come up later as a problem because negotiation is not a here and now thing and that's it.

KATZ: There are agreements that I have been involved in which there were subsequent problems, and I remember an expression of one of my lawyers, who, commenting on the complaint of the other side, saying, "Well, we stole it fair and square." Because we did not negotiate them in terms of the language. Now, sometimes you would get into problems like that, where you reach agreement on the substance, and then it's translated into language. And sometimes the language doesn't come out quite the right way, on one side or the other. Now, I can think of at least one case where I lost out. I can think of one instance where an agreement was negotiated it turned out that something was left out inadvertently. And I went back to my counterpart and said, "Look, we made a mistake. This was left out." And he was enough of a gentleman say, "O.K., we didn't intend that." And so we amended the agreement. And there are cases where we've done that. Obviously you want to get the most you can for your side, but you don't want to do it at the expense of jeopardizing the success of the agreement over the long term. Modern agreements are so complex -- economic agreements or trade agreements -- and have so many elements in them, it's hard to say that one side got the better of another.

Q: Did you see a changing role -- you had a long time doing this -- in the role of the Department of Commerce as far as trade agreements went?

KATZ: Yes. The Commerce Department role did change. There was a time, particularly prior to 1963, when the Commerce Department had primary responsibility. That is, they had the coordinating role within the government. They chaired the trade agreements committee within the government. The State Department had it before that, and then it went to Commerce. And then in the 1963 act, it was decided to create the office of the Special Trade Representative, which later became the U.S. Trade Representative. And that was to really provide a more neutral place to bring together the government policy.

What the Commerce Department had was more technical support, or if you like expert advice. Although some of that was also in the International Trade Commission, the old Tariff Commission. Of course, the Commerce Department always played an important role with respect to policy, representing industry in a sense. In terms of the advocacy positions in the government, you had Commerce representing industry, and Agriculture representing agriculture, and the Labor its constituency and State Department representing a broad foreign policy interest, and the Treasury representing economic policy interests, and so forth.

So Commerce has always played a role in that sense, but they have not played the central role, at least since the 1950s. Now this has, of course, given rise to a lot of bureaucratic pushing and shoving, and elbowing from time to time. There have been repeated attempts by some Secretaries of Commerce to try to play a more leading role. This came to a kind of a crux in the Reagan Administration, when Secretary of Commerce Baldrige tried to

create, and indeed got President Reagan to agree to create a Department of Trade and Industry, which was really based on the Japanese Ministry of Industry and Trade, MITI. This was called the DITI. In fact, I was in New York at the time on a program with Mac Baldrige, and I took the other side of the argument.

It's very hard for people to understand why we need to have 16 different agencies all involved in foreign trade. But that's a reflection of our economy. The reason there is complexity in foreign trade is because foreign trade is by its nature a complex subject. Foreign trade consists of goods crossing the border. Before they cross the border they are produced by some sector of the economy. So it does involve industry, it does involve agriculture. It does involve Treasury and the State Department has an interest. And the Defense Department has an interest. But then there are a host of other agencies, like the Food and Drug Administration, the Department of Justice may have an interest in terms of anti-trust policy, and so on. So there must be some way of bringing it together.

Now you can put the primary responsibility in one place or another. You can put it in State, or Commerce, or Treasury, or put it in a separate agency. But ultimately, what is required is to bring all of the elements together in some kind of a coherent policy and strategy.

In 1963, it was decided that the best place to put all that is in the White House itself, and have a small staff. Now, unfortunately, that staff has grown, but still very small by normal standards, roughly somewhere around 150, although during my time we had detailees from other agencies, so that we had about 200 people. But then we were running two huge negotiations at the same time. But that's a model that has worked very well. Now the proposals to abolish the Commerce Department have very little to do with the question how you run trade policy.

The proposals to abolish the Commerce Department are a form of trophy hunting, or to put it another way, I've kind of likened it to the current television game called Jeopardy, where the object is to state the answer, now what's the question? Part of it is most largely driven by the desire of the new young Republicans in the House to abolish something in the government, and Commerce is a very obvious target because it not only deals with foreign trade, it deals with dozens of other subjects. It's been described as the nation's attic or garage. And it has such things as oceanographic matters, the Weather Bureau, the Census Bureau, the National Institute of Standards and Technology, the NIST, and God knows what else.

The current proposal coming out of the House is to take the International Trade Administration, which are about 2,000 people in the Commerce Department, and put it in USTR. Well, what I've said, that's not abolishing the Commerce Department, that's abolishing USTR. It's really eliminating the role of USTR. It's taking it out of the White House, because it's too big for the White House. It's not a department, but it has Cabinet status, and it's just a very messy idea. I don't know whether it will survive, but the

President has said that he will oppose it, veto it, so I suppose it won't happen this year, maybe not next year either.

Q: What about Congress? Did you find that Congress, every time we have an agreement, you always have to give something? Did you find Congressmen of one persuasion would latch on to something about our giving away the store, or that sort of thing?

KATZ: Congress is really an essential player in the conduct of foreign trade, because foreign trade is a power which is reserved to the Congress. In fact, I have described the conduct of trade policy as kind of condominium. The Congress, under the Constitution, has the power to levy taxes, and to regulate foreign trade, but the President has the authority and the responsibility to carry out foreign relations. And you can't do one without the other. Since 1934, with the Reciprocal Trade Act, post-Smoot-Hawley Tariff, the Congress has typically authorized the President to enter into agreements to reduce tariffs and to proclaim the results thereof. That is, to carry out tariff reductions by proclamation, within stated limits in the legislation. That is, the President can cut 20 percent or up to 50 percent in certain acts.

But, as I've said, trade agreements have become much more complex, and they deal with a lot more than just tariffs. They deal with tariffs, non-tariff measures, all kinds of regulations, laws affecting commerce, intellectual property, investment policy, and so the Congress, since 1974, has not been willing to authorize -- well, Congress has never been willing to authorize the President to change the laws of the country, other than tariffs. And so since 1974, we've had the fast-track negotiating authority.

That has become essential for the United States to carry out trade negotiations because other countries will clearly not negotiate with the United States, and sign an agreement, and then have to have the agreement come back to the Congress, and have the Congress rewrite it on the floor. But what happens in fact, is through the consultation process in the course of negotiations, and then in the development of that implementing bill, there is a process known as mock mark up sessions, where the relevant committees review the agreement and the proposed legislation, and they try to push the envelope in terms of what is in the agreement. And sometimes there are some side deals that are cut. But basically, this is a process that has worked pretty well for about 20 years.

Unfortunately, that authority has expired. It expired a year ago, and has not been renewed. It is currently a matter of contention between the White House and the Congress. They have fallen into a disagreement over the desire of the Administration to add labor and environmental standards to trade agreements. And the majority of the Congress is opposed to that.

As I have said when I described the NAFTA process that throughout the NAFTA process and the Uruguay Round, all the time we were conducting these negotiations, we were engaged in very close consultation both with the Congress, and with the private sector. So that we knew how much latitude we had in the negotiation. We knew basically what

would be acceptable. That's just become an essential part of conducting a trade negotiation for U.S. negotiators.

Q: Did you find that these consultations in the middle of negotiations, that you would have problems, to use an expression, either somebody from the private sector or from Congress, going off the reservation, saying, "We're trying to do this, and they are absolutely wrong," and that sort of thing?

KATZ: Absolutely. It's a horrendous process. You're balancing all kinds of considerations at the same time. It's a lot more complicated than playing chess. And sometimes there are private sector interests that are in opposition to one another. During the NAFTA negotiations, for example, we had a horrendous problem over something called "flat panel displays." These are monitors, television monitors. There's a small, nascent industry trying to build these flat panel displays, mostly a small size that they were providing to the military to use in airplanes and tanks. And basically it was subsidized through the Defense Department. But the commercial flat panels were not being produced in the United States. They were being produced primarily in Japan. IBM and other companies were engaged in large joint ventures in Japan to produce these. So here I was caught between the domestic flat panel industry, whom I called the "flat-earth people," and their congressional supporters on one side, and the IBMs and the Compaqs, and the Hewlett Packards of the United States, on the other side. I got to a point where I absolutely despaired of coming to an agreement. This had nothing to do with the foreigners. This was just the god-damned Americans.

Q: Looking back on the whole thing, Julius, how do you see America's position as far as trade? Has it developed well, or not so well? Do you see other countries moving ahead?

KATZ: This really is a marvelous country. It's an incredible country, with strengths that are greater than exist in most countries in the world. Yes, we have our problems, obviously. But it has more resiliency than most countries in the world. The other point I'd make, is that we do go through cycles, and other countries do as well. In the period in the 1970s, and 80's mostly as a result of bad policies, but also partly for cyclical reasons, we had some severe economic problems. But our economy has been transformed since then. That is still going on now, and so we have become the most competitive country in the world economically, in virtually all sectors. We still produce an awful lot of automobiles in this country. One can argue whether the quality of Japanese automobiles are higher than American automobiles, but if you look at it in terms of quality versus price, we still have a strong industry. And then when you go beyond that, to technologically advanced industries, of course, we're way ahead of everybody else. We produce something like 80 percent of the software in the world.

Now, it isn't necessarily forever. Bad policy can defeat that. One of the consequences of this transformation of the economy that we have seen, is that there are serious problems and questions about income levels, particularly at the lower and middle levels. Incomes have not risen, and that's a cause for concern. There has been a lot of displacement of

labor, in large part, because of the globalization of the economy and the transformation of the economy, with companies getting leaner, productivity is going up, and that's at the expense of labor. That's not limited to the U.S. That's true in Europe as well. But that again, is a cyclical phenomenon, and I don't know at this point how and when that will change, but I'm sure it will.

A decade ago or less everybody thought that the Japanese had suddenly become 10 feet tall and that the Japanese were going to dominate the world. The Japanese now are in very serious trouble. Again, people tend to exaggerate problems, and some think the Japanese banking system could collapse. I don't believe that will happen, but the Japanese are going through some very severe problems. China has now become a matter of great concern. China could become the dominant economy in the world, but people don't understand the history of China, and what some of their own tendencies are. But all through this, what I have been impressed with, as I said, is the resiliency of our own economy, our people.

One of the things that I've enjoyed over the years is seeing young people come along. Through the Vietnam War, when everybody thought that our children were going astray, there were people that we'd recruited into the State Department, and they were bright and enthusiastic, challenging and I see that constantly. So I don't know how we're going to get past the next year, but I have great optimism about the future.

Q: Thank you very much.

End of interview