



## THE QUOTA CASE

### CONFIDENTIAL INSTRUCTIONS FOR THE DEPUTY ASSISTANT SECRETARY FOR EUROPEAN COMMERCIAL AFFAIRS, U.S. DEPARTMENT OF STATE

You serve as the Deputy Assistant Secretary for European Commercial Affairs within in the U.S. Department of State. Your job primarily involves ongoing maintenance of the relationship between the U.S. and many of its European trading partners. Many in Washington seem to wish that you spent your time as a full-time advocate for U.S. interests. What they don't understand is how important and delicate these relationships can be. Of course, you are very concerned about protecting U.S. interests. You simply think that many outsiders do not appreciate the range of different activities necessary to do that. You recently received the following from your boss, the Assistant Secretary of State for European Affairs:

"The recent controversies with Zapata over the base negotiations and the request for a higher fishing quota has put us in a difficult position. The Defense Department is very angry because what they see as a peripheral issue, Zapata's request for an increased quota, is holding up a major base agreement. Consequently, they are pressing hard for us to resolve the fisheries issue as soon as possible. On the other hand, the Commerce Department (DoC) has been equally determined to deny Zapata's request. As you know a meeting has been set up to re-open the fisheries question. The meeting was arranged hastily and I did so without consulting DoC. Under normal circumstances, I would normally not consult DoC when arranging a meeting of this sort. In this case, with emotions running high, I wish I had."

"Your task is to develop and implement a common approach with the Departments of Defense and Commerce in the upcoming negotiations with Zapata. Both departments are likely to be rigid in their positions, and the major challenge is going to be to get the necessary flexibility to deal constructively with Zapata. Up to this point, the DoC has stubbornly resisted even talking about a quota increase for Zapata because of its potential impact on the domestic fishing industry. This strategy, however, has backfired somewhat. According to our Embassy in Zapata, the last meeting on this issue broke off with an angry exchange with the Zapatan Vice-Minister for Trade and Industry. When we tried to explain that an arbitrary quota increase was against U.S. policy and inconsistent with the Magnuson Act, the Vice-Minister accused us of protectionism. The Vice-Minister has been an aggressive proponent of hastening the pace of Zapata's economic development. When we offered to meet the Zapatan needs for more squid through "over-the-side" sales from U.S. fishing vessels, the Vice-Minister rejected the idea saying that Zapata had "no use for the over-priced, inferior quality fish" produced by our fleet."

"Shortly after this exchange, the anti-American attacks appeared in the Zapatan press. One editorial in *La Nación* exclaimed that, "Each passing day, Zapata's relationship with the U.S. is proving to be more and more one-sided, in favor of the U.S.! Whether it's fisheries or military

bases, Zapata is giving and the Americans are taking." Several opposition political groups have picked up on this issue and are using it for their own political advantage against the Zapatan Prime Minister. As a result, the Prime Minister is reluctant to finalize the base agreements while anti-American sentiment is so high."

"The Department of Commerce has defended its taking such a rigid position by citing the fact that the Europeans and the Japanese already enjoy a technological advantage over our fleet. The domestic industry is very sensitive about moves which might make it even harder to compete with foreign fishing fleets. The Magnuson Act, which governs the setting of quotas, clearly stresses the importance of considering the impact on the domestic industry when changing quotas. Because the Europeans use more modern techniques, nets, and processing ships, domestic fishermen have had trouble competing, especially in market for Loligo squid. In addition, foreign fleets have been unwilling to assist the U.S. industry through joint ventures or agreements to buy fish directly from U.S. fishing vessels. Remember that under the Magnuson Act, the Department of Commerce has the legal authority to deny any quota increase. Therefore, it will be difficult to push for a quota increase over their objection.

"The position of the Defense Department is also clear. They feel that the quota issue is insignificant when compared to the renewal of our bases in Zapata. To them, the issue is straight forward, and they see the current dispute as a sign of our incompetence. The strength of their reaction may be due to the Defense Department's fear that with the end of the Cold War its status among the administrative agencies is declining. They may see this issue as a test of their ability to protect their Department's interests. As such they are likely to insist that we simply give in and be done with the issue -- a point the Commerce Department is likely to resist with equal strength."

"It is also not in our interest to simply give in. While the Defense Department would benefit from a quick concession to Zapata, the domestic industry, and their allies in Congress, would certainly put the blame on us, not on the DoD. We cannot afford to be seen as caring more for foreign industry than for our own at the present time because Congress has been reluctant to approve funding for our foreign aid programs. With the current slump in the domestic economy, public opinion is demanding that Congress and the President spend more money at home rather than abroad. We have also been working closely with the Commerce Department to get fast track authorization from Congress for the passage of a series of free trade agreements, an additional reason not to upset the DoC or Congress at this time."

"Further, we do not want to set the precedent that countries with U.S. military bases can extort economic and political concessions from us whenever they negotiate a base renewal. The Zapatans don't understand our need to maintain the integrity of the quota system. They feel we can set the precedent of simply granting quota increases because a country screams and threatens us loud enough. Even if we were willing to let them fish the "excess" capacity of the Georges Bank, we cannot afford to make such a concession simply because Zapata has made a linkage between this issue and the base negotiations. We cannot look like we backed down to intimidation."

"The best outcome of the meeting with Zapata may be to get the Zapatans simply to drop the

matter and to make an announcement to that effect in order to end public debate on the issue. However, I doubt Zapata will agree to just drop the issue, as the Commerce Department would like. We can't realistically just give in, as the Defense Department would like. And working out some kind of a deal will require some negotiating room that neither DoC nor DoD will want to allow."

"Since we are the lead agency in these negotiations, we have the authority to decide what line to adopt if we cannot achieve a consensus with the Departments of Defense and Commerce. We would, however, prefer to avoid doing this, as either DoD or DoC would in that case probably appeal to the White House. The Defense Department has an advantage as they more often than not can secure the President's backing on issues affecting national security, but the Commerce Department has the ability to lobby Congress and the domestic industry to put pressure on the President. In either case, we are likely to be stuck in the middle and make enemies in Congress and the White House, a situation we need to avoid. In addition, it is very important to us that we present a united front, and do not give Zapata an opportunity to take advantage of our internal divisions to get what she wants with no gain for us."

"My guess is that the Zapatans want an increase in their quota because they are about to enter the European Union, and they want to establish themselves as a leader in the fishing industry. They have few other industries that can compete with other members of the Union, and while many countries have requested from us increases in their fishing quotas, Zapata seems to be the most anxious. The Secretary of State is also quite confident that despite their complaints, the Zapatan government cannot afford to back out of the base agreement at this late stage. I believe the Secretary of Defense agrees with this assessment. The political cost they would pay would be much more severe than any potential gains they might obtain in the fisheries area."

"One final point on which I would insist is that our negotiator not agree to "keep talking" in order to buy time. This will only lead to more trouble for the State Department. If we raise Zapata's expectations and then disappoint them, it will lead either to a worsening relationship over the long term or may precipitate another crisis like the current situation. Our interest is to have a solid ally within the EU as it takes on a greater international role."

"The Zapatans really do not have a lot of bargaining room. However, Zapata is a valuable ally, and we want to preserve a good relationship with them over the long term."

"Remember, the Secretary of State wants this thing settled quickly."