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MEMORANDUM

NATIONAL SECURITY COUNCIL

~~SECRET~~/NODIS ATTACHMENT

December 2, 1975

MEMORANDUM FOR: Brent Scowcroft

FROM: Robert Hormats *RH*

Attached is a copy of the notes I took at the Rambouillet Summit. Given the candid nature of the discussions, I am limiting distribution of this to you and members of the EPB Executive Committee actively involved in preparations for the meetings; I hope that access can be confined to key officials in the various departments. I anticipate that Henry Kissinger will want to have a follow-up meeting of the same group which prepared the papers for the Summit to determine how to proceed to implement its results. In the meantime, it might be useful for the staffs of the various principals concerned to determine the areas in which follow up is appropriate and to select some of the better ideas in the discussions for further consideration within the USG.

~~SECRET~~/NODIS ATTACHMENT

THE WHITE HOUSE  
WASHINGTON

MEMORANDUM OF CONVERSATION

PARTICIPANTS:

Federal Republic of Germany  
Helmut Schmidt, Federal Chancellor  
Hans-Dietrich Genscher, Minister of Foreign Affairs; Vice Chancellor  
Hans Apel, Minister of Finance

France  
Valery Giscard d'Estaing, President of the Republic  
Jean Sauvagnargues, Minister of Foreign Affairs  
Jean Fourcade, Minister of Economy & Finance

Italy  
Aldo Moro, Prime Minister  
Mariano Rumor, Minister of Foreign Affairs  
Emilio Colombo, Minister of the Treasury

Japan  
Takeo Miki, Prime Minister  
Kiichi Miyazawa, Minister of Foreign Affairs  
Masayoshi Ohira, Minister of Finance

United Kingdom  
Harold Wilson, Prime Minister  
James Callaghan, Secretary of State for Foreign and Commonwealth Affairs  
Denis Healey, Chancellor of the Exchequer

United States  
Gerald R. Ford, President  
Henry A. Kissinger, Secretary of State  
William E. Simon, Secretary of the Treasury

DATE, TIME,  
AND PLACE:

November 15, 1975 - November 17, 1975  
Rambouillet, France

SUBJECT:

Economic Summit



DECLASSIFIED  
E.O. 12958, Sec. 3.5 *State Dept. Review 3/11/04*  
NSC Memo, 11/24/98, State Dept. Guidelines  
By dal/c/h, MDA, Date 8/20/04

Chancellor Schmidt: Although all countries have been affected by the recession, they have been damaged in different ways. It is important to bear in mind these differences when discussing common problems. The world has so far been spared the spectacular collapse of stock exchanges and banks. This is due to a greater understanding of economic relationships than that which had existed between the two wars. Rising inflation however has led to a breakdown of the Bretton Wood's fixed parity system, thus adding to the lack of confidence caused by inflation itself.

On top of this has come the dramatic rise in the price of oil. This has affected everyone, particularly the developing countries, who have had to cut back on other essentials to pay for their oil.

The sequence of inflation, disturbance of the fixed parity system, and quintupling in the price of oil has in turn led to a damaging of world trade, and thus to unemployment in countries that depended on their exports. Entrepreneurs are now very cautious. Germany will suffer a real decrease of GNP of 2% in 1975. The main objective of all of us must be to bring down the rate of unemployment or there will be social unrest. Despite the optimistic noises being made in some quarters, I am not convinced that we have yet seen the worst of the recession. This is not so much a matter of economic analysis as it is because the recession itself has been due partly to political errors. Politicians are capable of making further mistakes.

It is necessary to stimulate consumption, promote expansion and keep interest rates from rising. And since the depth of the recession has been partly due to psychological uncertainty, it is important to send a message of confidence from Rambouillet. The German Government is running the biggest budgetary deficit in its history and has so far been able to keep unemployment down to 5%. But if there were another 10% increase in the price of oil, the upturn could be called off.

The Rambouillet Conference should set four objectives:

- The participants should ward off any protectionist trend. They should maintain the OECD trade approach. And they should speed up the GATT negotiations.
- They should intensify their cooperation on their international economic policies both between governments and between their central banks: and they should do everything possible to promote an agreement at the IMF meeting in January 1976.



- They should realize that financing of the balance of payments gap was vital to the recovery of the developing countries. There are many schemes which had been put forward, but at least agreement ought to be reached on a scheme to stabilize export earnings.
- The consumer/producer dialogue would probably take a long time to produce significant results: but we should persevere with it in order to avoid unilateral action on either side.

President Ford: I agree that it is necessary to work together in the economic field. This is also important to stabilize the political background. The American people have reacted very well to the recession. There has been concern elsewhere about the trade investigations which the United States Administration had undertaken. However, the US Government has to undertake these investigations by law. This does not imply that there will be a protectionist outcome. In any case, I agree that an impulse should be given to the GATT negotiations in Geneva. The US Administration now has a good trade law which would enable us to engage in cooperation in the trade area.

Rambouillet can send a message of interdependence and cooperation which would contribute to a feeling of international confidence. Our nations have for three decades been the foundation for human progress and the cornerstone for global peace. We are of central importance to one another--economically, politically, and militarily. The cohesion and vitality of our societies is of central importance to the rest of the world.

This summit is designed to deal with economic questions but in a more fundamental sense it springs from the enormous interdependence of our societies and the common values which we share. It can enable us to consolidate our unity in an important moment in our history--to convey to our people that we are working together with goodwill and common purpose, and that our countries are politically committed to our mutual well-being.

We cannot resolve all our problems, but we can achieve a better understanding of them. And we can resolve to approach them in a manner which reflects our desire to meet our challenges together. By working together in the past we have contributed to an unprecedented period of common prosperity. We have learned that on a broad range of problems--defense, energy, trade, and development aid--our individual efforts can only have lasting success if supported by the contributions of all.





In this meeting we have the opportunity to help shape the future of the world economy. The issues between us cannot be treated purely as technical matters. They must be resolved through political will and in a spirit of compromise; for all of them are subordinate to the paramount interest we share in our solidarity and common well-being. And this solidarity, in the final analysis, will be vital to helping us meet our individual challenges.

Our understanding of the need for close cooperation has been manifest in the consultations each of us have had with one another as we have worked to solve our current economic difficulties. We have, in these discussions, frankly examined our problems, our policies and our prospects. In this same spirit, I should like now to briefly discuss my approach to the American economy.

The health of the American economy is significantly better than it was at the time of some of my earlier conversations with you. The policies now in place are appropriate in our judgment to maintain maximum growth in the short term without setting off at the same time inflationary instabilities which would threaten growth over the longer term. We must focus our longer term policies on gradually defusing the inflationary pressures which afflict our economy, as well as yours, and set in place policies which will encourage savings and investment, job creation and productivity. My recent proposals to slow the accelerating rate of governmental outlays and to cut taxes were developed to implement such longer term goals.

The precipitous fall in economic activity in the US that started late in 1974 came to an end early in the second quarter of this year. Our recovery, now seven months old, has shown even greater strength than expected earlier in the year. Since early spring, industrial production has been rising at a seasonally adjusted annual rate of over 13%. Over the same period, total civilian employment has increased over 1-1/2 million jobs and productivity has advanced strongly. Although we consider the rate of unemployment unacceptably high, the unemployment level will decline as recovery continues. The third quarter figures indicate that real GNP increased at an annual rate of over 11%. A decline in the rate of inventory liquidation accounted for more than half of the gain in GNP, but the growth in final sales of goods and services was very satisfactory. Another large advance is in the making for the current quarter, although somewhat less than in the third quarter.

The outlook is for a continuation of the strong recovery in the US. Inventories are still being liquidated and production remains below the level of final sales of goods and services. As inventory liquidation ends and we move to normal levels of inventory accumulation, there will be a further impetus to real growth. Even more encouraging, the evidence

we have indicates continued strength in final sales. With real personal incomes rising strongly and with consumer confidence and liquidity improved, there is a solid foundation for continued gains in consumption expenditures. Moreover, the decline in business fixed investment appears to have bottomed out earlier than we had anticipated. With consumer goods sales rising strongly and with much improved business profits, significant growth in business fixed investment is likely next year. Moreover, the monetary and fiscal policies put in place by the US Government are calculated to accomodate a strong business expansion. Chairman Burns has assured me that the rate of money creation over the next year will be adequate to ensure sustained recovery. We anticipate that GNP will grow at an average rate of 6-7% through the middle of next year, and at an average rate of approximately 5% from the middle of next year through the middle of 1977.

Although some of our recent reports on price increases were disappointing, I remain confident that inflation is essentially under control. The easing of farm product prices has served partially to allay the concern regarding an early renewal of strong upward pressures on prices. While the 6-7% inflation rate in the United States is unacceptably high, expectations of lower rates of inflation by the money and capital markets have contributed to a decline in interest rates from this summer's high.

The current world recession differs from previous post-war recessions not only in breadth and depth, but also in the length of time it is taking for recoveries to materialize. A major factor that has contributed to the simultaneity of the recessions across countries and that is making the recovery so hesitant is the quintupling in the price of oil over the past several years.

The oil price increase has contributed toward creating a climate of uncertainty, has substantially increased inflationary pressures, and has had a significant deflationary impact on our economies. All this has made recovery more difficult to achieve. Countries are only slowly assessing and effecting the structural changes required for their economies to adjust to higher cost energy, and recognizing the probably slower growth rate which will result.

I know that you have taken measures since the beginning of the year to stimulate your economies. I am told that in most cases the direct effect of the fiscal measures instituted in most of your countries amount to between 2 and 3% of GNP and are additionally supported by considerable monetary stimulus.



I share the view that many of you have expressed -- that private sector demand has mainly been inhibited by confidence factors. With a return of confidence recovery could become extremely strong, particularly because reflationary measures have been taken simultaneously by our several countries, and large amounts of accumulated savings could support strong gains in consumer expenditures.

The US recovery has proceeded ahead of the recoveries for most of your countries. The US economy is moving from a fall in real GNP of about 5% between the second quarter of 1974 and the second quarter of 1975, to a rise in real output of between 7 and 8% between the second quarter of 1975 and the second quarter of 1976. Such a shift might expand the volume of world trade by about 3-4% and this should be of considerable help to you. But somewhat faster growth of the US economy than now envisaged would make only a modest, if not negligible, contribution to world recovery. A percentage point of additional growth of the US economy (over and above what is expected now) would affect the growth of the European economies on the order of 1/10 of 1% each in 1976. Effects on the Japanese and the Canadian economies would be greater, but still small. However, our growth, and yours as well, can help build confidence with consumers and investors.

There are also steps that we can take at this meeting to aid in rebuilding confidence. We must ensure that the current world economic situation is not seen as a crisis in the democratic or capitalist system. While there are problems of a structural nature, these need not prevent strong recovery. A vigorous economic recovery in the United States, rising economic activity in Japan, the beginning of recovery in France and Germany, and a bottoming out of recession in a number of other economies should give us a greater sense of confidence than we had several months ago. Strong stimulative monetary and fiscal policies have simultaneously been put in place throughout the industrial world, and these will eventually take hold. The stability of current policy will do a great deal to enhance confidence. In light of our prospects, and the policy actions we have already taken, we are able to publicly reaffirm our confidence that, although the response to stimulative policy measures is slower than most in the post-war period, recovery from the present recession is well underway.

The vitality of our industrial democracies, the leadership we are able to provide the rest of the world, and the quality of life that characterizes our societies depend upon our ability to achieve sustained economic growth without inflation. I know there are those who believe that economic growth



will be impossible to sustain in the future. I categorically reject that view and am convinced that a market economy is best able to make the adjustments and technological changes necessary to economize on scarce natural resources.

If we are to realize the levels of growth that we desire and that are possible, higher rates of capital formation are required than we have achieved in the recent past. As leaders, we must provide the kind of economic climate that encourages confidence and enhances the incentives for business to invest. I have introduced tax proposals that increase the profitability of investment. I am firmly committed to limit the growth of our governmental expenditures. This will release the savings necessary to finance this investment. I have also made a concerted effort to reduce unnecessary government interference so as to maximize private initiative and enhance confidence. Confidence also depends on consistency in national economic policies and resisting the pressures for stop-go measures that inevitably have resulted in greater economic instability and uncertainty. In short, we must pursue a steady course if we are to achieve larger investment and sustained growth.

We must not, however, fail to realize that we face serious problems in reaching our goals and we must not be so complacent that we fail to take full advantage of the opportunities that this meeting provides.

Our discussion here could productively focus on cooperative efforts to ensure that the policies we take are compatible with a sustained economic recovery in the international economy over the longer term.

We should make a clear commitment to restore economic prosperity without resurgence of inflation and to pursue this goal by mutually supportive policy actions. I propose that we set as our objective a generalization of recovery during 1976 among the major industrial countries, restoration of sustained vigorous economic expansion and high levels of employment by 1977, a reduction in the rate of inflation in our economies as a whole as well as in disparities among national inflation rates, and restoration of vigorous growth in the volume of world trade as domestic recovery and economic expansion proceed. We believe that achievement of mutually compatible domestic policies to achieve these goals can be enhanced by discussions here and by our Ministers to compare economic prospects and to achieve a better understanding on how national policies impact on one another with a view toward determining if serious incompatibilities in objectives and policies exist. We should each designate one of our Ministers to follow up this meeting in a fashion they consider appropriate. Bill Simon will represent me.



We might also reach agreement here on several areas of longer-term significance. Our dependence on energy is going to grow to levels even more dangerous than those of today unless we work vigorously to achieve reduced dependence. Arbitrarily set oil prices or cutoffs in supplies can cripple our economies. And the uncertainties over future producer policies will constantly undermine confidence in our consumer and business sectors. We must, as an urgent matter, ensure that we are doing all we can to reduce our dependence, and I shall speak on this later on.

We should also make clear our continuing commitment to work toward liberalization of international trade, in particular by reaffirming strong commitment to the OECD trade pledge and by agreeing on priorities and a tight timetable for the Multilateral Trade Negotiations. We should ensure that the monetary system evolves to facilitate the freest possible flow of goods, services, and capital. And we should reaffirm the positive directions established in the dialogue with the developing world--to ensure that the industrialized and developing countries make the maximum contribution to one another's well-being.

Prime Minister Wilson: I agree with the diagnosis of Chancellor Schmidt and am heartened by what President Ford has said. I am struck by the latest figures of car production in Detroit. All of us know the impact of autos on the economies of industrialized nations.

Chancellor Schmidt identified many of the causes of the world's economic problems--oil prices, and a worsening of the terms of trade for developed and especially developing countries. He also usefully stressed the structural nature of the world's, and national, problems.

For thirty years the biggest restraint on United Kingdom policy was balance of payments. I am happy to report to you that, recently, we have made some improvements. There is not as much progress as President Ford's. His surplusses, I should think, are embarrassingly large. When we took over in 1974, we inherited a deficit for the last quarter of '73 of £ 4,000 million; and that was before the full oil impact hit us. This year, even though we have felt the full impact of oil, our balance of payments deficit is one-half of this. Our non-oil account is in surplus by £ 1,000 million. We are, therefore, covering about one-third of our oil import deficit.

With respect to inflation, I cannot boast of the successes like Chancellor Schmidt, with Germany at 5.8%. And others of you also have had



significant reductions. For the United Kingdom, our figures are horror figures. In part, this is because past strict statutory controls have led to anomalies, and many people are trying to catch up.

We have a government policy to deal with this problem through voluntary actions. Our program has received the agreement of the trade unions, has been endorsed by the Parliament, and received a large vote of support in the Trade Union's Congress. It was also supported by the mine workers, voting in secret. Union's have confined their wage demands to the government set figures. All recent settlements in large industries and small shops are within government set limits. Inflation is on a decline to 10% this autumn from some 27% earlier this year. And we hope to get it down to a single figure by the end of next year.

In addition, we have an income saving ratio of 12.4%, which is high.

For the first time in several years we have maintained and even increased our proportion of world trade, and this in a world of shrinking trade.

The world recovery seems to be getting underway. But what I want to ask of you at this table is that you have policies of flexible response. We do seriously fear the possibility of a hiccup in the recovery now underway. We fear the possibility of a relapse into long periods of stagnation and decline. OECD prospects are pessimistic. There are countries here whose economies have a major influence on world trade. I hope they will be ready to act quickly if there is any signal of a lack of adequate recovery.

Chancellor Schmidt said his public sector deficit was the largest since Jesus. This is true!

Chancellor Schmidt: Yes, ours is over 7% of GNP.

Chancellor Healey: Ours is 7.6% of GNP and our public sector deficit includes borrowing by all public sector bodies. This 7.6% is central and local authorities in the United Kingdom.

Prime Minister Wilson: We clearly understand how similar our problems are. We all suffer from similar employment situations and a fall in industrial production, which is about the same in our countries. But I would like to warn you--the causal countries, i. e., the countries who play a key role in the world economy, about premature reduction in



budget deficits. I say this especially with respect to those with balance of payments surplusses with the rest of the world. This would damage not only their recovery but also that of other countries.

In reference to what Chancellor Schmidt said on structural problems, I chair the National Development Council, which consists of management, the trade unions, and the financial community. We examined our structural deficiencies and reached agreement on a new industrial strategy that has been well received.

On oil production, the Queen recently commemorated the first flow of oil from the North Sea. Attached to the platforms there are 27 pipes going down to the individual wells. There are two flowing now. The car I drove to the airport might have been running on North Sea oil. Next year we expect a £ 700-million balance of payment improvement from this one North Sea oil field. Our proved reserves come to a total value of £200,000 million (£ 200 billion). Our present reserves offshore are double all the proved US offshore oil, including Alaska. Hopefully we will get no less a substantial benefit from our Western Sea, and I know France hopes so as well. I hope to be Chairman of OPEC five years before President Giscard. By 1980, 90% of all oil in the EC and 45% of all EC energy (oil, coal and nuclear, etc.) will come from the United Kingdom.

On reflation, we have a small program aimed at job creation, incentives for the unemployed school leavers, hard hit areas, industrial investment for production, and jobs in urban areas. These are not ongoing programs, but are temporary. It focuses on those jobs that need to be done, e. g., building latrines in schools. These are things that can be phased out when we no longer need them, but are necessary to deal with our unemployment.

We also are placing increasing emphasis on the restructuring of industry. More jobs could be created by specific help to restructure and remodelize industries falling behind. These are not lame ducks, and this is no protectionism. These industries are basically competitive both home and abroad.

In our circumstances, this is much more effective than undertaking a major reflation prematurely. The Chancellor has allocated £ 75 million to this effort, which has produced as many jobs in three to four months as one billion pounds of reflationary stimulus could produce in a year. And this billion pounds would be inflationary. It is not as good as £75 million producing jobs in three months.



Still, our best signals are for only small progress next year. I ask my colleagues to be watching anxiously for any period when movement slows, and urge them not to cut their budget deficits.

With respect to what we say in the press, I think we should only mention the subjects covered and not summarize our presentations, or details.

Prime Minister Miki: When I took over, Japan was facing high rates of inflation--8.4% wholesale price index and 24% consumer price index. Japan's rate of inflation was rampant. My Cabinet focused on a reduction in inflation. We plan to bring down the rate of inflation to 10% by March 1976. It is now 13%. We are continuing policies to achieve single digit inflation next year and, thus, we will be able to get rid of rampant inflation next year.

Still anti-inflationary policy has led to a serious slowing of demand and unemployment. Unemployment in Japan is 1.9%. This is over one million people. For Japan, however, this figure is somewhat misleading. It means that there are a number of others that are not fully employed, because Japan has a life employment system. This is different from the rest of the world. Employers do not dismiss redundant workers. 1.9% is misleading because large numbers of people are idle and do not show up in employment figures. So, the rate of unemployment is three times this if we use the same measures as the rest of the world. We are working at about 75% of capacity. The large numbers of redundant workers on payrolls and large debt service problem work to the disadvantage of the companies.

The government has taken significant anti-inflationary measures over the last six months. The economic situation improved since last March, but we have not realized the sort of progress we anticipated. Therefore, in September we applied \$7 billion for economic recovery. Foreign Minister Ohira will depart tomorrow to participate in debate in the Diet on economic affairs. Our fiscal deficit is \$18 billion, which amounts to 25% of our total budget.

The situation in Japan is worse than the situation in Germany as Chancellor Schmidt described it. What we are doing in Japan is to reflate our economy. We have 2.2% growth this year and we hope for 5 to 6% next year.

Japan's recovery is moving rather smoothly, but unless we have recovery in other countries at a more or less similar rate we cannot expand trade in this way. Therefore we need recovery abroad as well.



As President Ford said, we should all strive for recovery in 1976. The President's remarks to that effect were well taken.

I would like the countries here to get together for solidarity on economic policies. There are important psychological factors, to which Chancellor Schmidt refers. If there is a great deal of uncertainty, it will jeopardize recovery.

Psychological factors will hurt confidence in economies. We need to promote greater confidence in individual economies. I am aware of the differences in different countries. I hope we will all have the capability to realize 5% rate of growth, as we did in the 60's. We can do it this year by measures contributing to recovery.

Chancellor Schmidt: With respect to the press, I think we should say only what we have dealt with here--the general economic picture; the pictures of our countries' economic developments, etc.

Prime Minister Moro: We have a serious recession and the threat of inflation, which would be very serious if we are not selective about how we deal with it. We should not be reflating so much as to create inflation.

While everyone is affected by the problem, the consequences vary in the participating countries. While all of us are taking some reflation, some have made more progress than others. I hope that the progress of the stronger countries in overcoming their recessions--the US, Japan, and Germany--will encourage and help the Italian recovery.

I should also like to refer to a few golden rules:

- We should resist protectionist trends, however tempting.
- Freedom of world trade is a prerequisite for overcoming our deficits and we must, therefore, agree to step up the MTN.
- We need cooperation between participating countries and, in particular, central banks.
- I am also concerned about relieving the deficits of the poorest countries.
- And steps should be taken to ensure adequate growth and stimulus to world trade and the world economy.



The Italian economic situation has been characterized until recently by strong payments imbalances. Last year the total deficit was \$7 billion. This year the estimate is that it will be \$1 billion, including oil.

In 1974 inflation rose at a rate of 25%--the consumer price index. This year it is less than 18%. And we are making further progress. Between July and September the rate was only about 7%. But still there are difficulties. We need to continue moving toward a more normal balance of payments situation.

As a result of the success of our operation, we have had a very big recession. In the midst of the world recession, the volume of international trade has receded by 5%. But Italian exports have been at levels of the past year with respect to earnings and market sharing.

Increased export demand is needed to compensate for decreased internal demand. If internal demand is decreased as a result of lower consumption, there is also a resulting drop in the employment level. In real terms, there will be a 3% drop in consumption this year. Investment dropped by 20%. The building sector declined by 8%. Therefore, in spite of the fact that export earnings have increased, there has been a drop in industrial production. There was a drop this year of 35% versus a drop of 24% last year. GNP dropped by 3.5% in much the same way.

Therefore, if we can bring prices under control and reduce our balance of payments deficit, we can undertake some measure of reflationary stimulus. The Italian government, in view of recession, has already undertaken some reflationary measures. Recently interest rates have declined, but we do not want them to decline too much or they will result in the outflow of capital.

We have also taken steps to stimulate investment. At the beginning of the summer we instituted a program of \$6 billion in expenditures, or 4% of GNP, in the economy. French and German figures are slightly lower. We have greatly increased the Treasury gap, or deficit. Had we not done this industrial production would have dropped by more than 33%.

These programs should increase GNP by 2% in 1976. But even so, this is well below our long term goal. We must, however, undertake only gradual reflationary measures to avoid an adverse price impact. We must also rely very heavily on the world economy.

We are also engaged in the restructuring of our economy to change the industrial structure. Consumption should increase less than investment in order to channel savings into investment. We want to invest in transportation and building, in areas of low import demand, and to improve



agriculture. Government is providing the necessary means. We should not discuss our plans in terms of short term policies, but look to long term action to eliminate economic distortion.

Our rate of growth declined by 3% as opposed to 2.9% in '74. An additional 180,000 people became unemployed.

Giscard: The French economy has an inflation record like Japan and a recovery record like Germany. It is sort of Nippo-Germanic. This being said, I do not need to discuss it in great depth. I would prefer to comment on the situation as a whole.

Nothing is worse to the internal situations of our countries than lack of certainty. President Ford was extremely optimistic. He took a positive posture in terms of US recovery. If he was right, this contrasts with the situation in Europe and Japan, where growth seems more doubtful. We still have negative growth even with our large deficit budgets. And, as the result, I believe economists have been proved wrong.

We are continuing to pursue expansionary policies, but there are two real threats to our growth.

First, as Chancellor Schmidt has said, our markets, the countries to whom we export, are facing a bad situation. The developing countries especially have had bad payments positions and they are getting worse. They cannot be counted on for an upswing in purchases. And the oil exporters' imports from us will be less in 1975 than we expected. The deficit faced by countries consuming our goods is thus a real threat.

Second, budgetary deficits are a problem. We cannot go on increasing our budgetary deficits. It is not so much the deficits, as it is the evolution of the problem. We have to do more to deal with it. If we do not, we will need more stimulus every year to get the same impacts and the amount of our deficits will continue to grow. Therefore, as soon as the situation gets better we will have to reduce our budget deficits. But this could put a further brake on growth. Strong non-inflationary growth thus appears to be unlikely, and we may be faced with a continuing unemployment problem.

I do not wish to be pessimistic, but in contrast to US optimism, it is my feeling that strong growth of the non-inflationary kind, is unlikely. But if we do not have strong growth we will have high unemployment.

In 1976, if the US recovers strongly, as President Ford described, there will be some degree of optimism about an improvement in Europe. If, however, the US growth begins to slow down in 1976, then we will have the feeling that recession is starting all over again.



From this, I have drawn certain conclusions. First, I feel that contrary to what we stated earlier, we should aim for, and talk about, a moderate growth rate. We can do this. It is unlikely that strong growth can be realized in 1976. We should not create the illusion that we can achieve strong growth. We should attempt only to achieve moderate growth next year, with the possibility of strong growth only in 1977.

Second, we have the problem of oil prices. They have cut off growth. Oil has increased 3% in price and this is exactly the amount that GNP in our countries has dropped. If we have another price increase, it will also have a serious effect on our economies. We must, therefore, limit the amount of money we spend on oil imports and decide what steps could be taken to avoid further balance of payments problems resulting from new oil price increases.

Third, it is important to make it known that if moderate growth is not achieved we will face up to it together. If our forecasts are not right we should work together to determine how we will meet the situation.

The message that will be given at Rambouillet to the rest of the world will be very important. We should attempt to make clear that we favor a maximum expansion of trade. There are temptations to use restrictive practices, but our economic structure is based on the development of trade and broad world markets. We should also make clear that we want to have a more stable situation as far as exchange rates are concerned. If the US recovery were stronger than expected, and than that of Europe, the dollar will appreciate. And this is not in anyone's interest. It would give us the edge over the US, but would make our oil more expensive. We should try to move toward a more stable system of exchange rates.

And, finally, we should make a bold statement about helping overcome the financial deficit of the LDC's. We cannot have recovery in the world economy if the LDC's go down.

There are a certain number of strategies we can develop together. I have a proposal. Time will move fast. I would like the Finance Ministers to meet tomorrow morning before 10:30 to see where there is a meeting of the minds as to what form could be given publicly to these aspirations.

Schmidt: I, like President Giscard, am skeptical about 5% growth in the LDC countries in the coming year. Japan has always had higher growth rates than Europe.



Chancellor Healey: One point of political interest. President Ford rightly said that the astonishing thing has been that the political impact of increased unemployment has been less than expected. But the critical problem is the large number of unemployed over a long period of time -- especially regional pockets of high unemployment, school-leavers and colored. There could be some very serious political consequences. We should not yet feel a sense of relief about this problem.

In addition, an increase in output next year will not have much effect in employment. Both Prime Ministers Miki and Moro pointed out the large number of short-time workers they have who are not fully utilized now. And there are a number of people who are simply kept on payrolls. In addition, some companies will not soon rehire workers they have just dismissed. So, that an increase in growth will not necessarily lead to significant results in employment.

In summary, we should not be too complacent about the political impact of present unemployment. And GNP growth will not help much in dealing with unemployment.

Chancellor Schmidt: The Finance Ministers will meet at 9:30 to prepare a press release and thereby set a framework for what should be said on Monday.

President Ford: Are we intending to issue a Communique? If so, the technicians should get together to do a draft.

Chancellor Schmidt: The Finance Ministers can direct their technicians to do this.

President Giscard: A real diplomatic Communique would absorb a lot of energy. We should aim for something like a declaration, which includes broad intentions and lines of action. And it will be difficult for technicians, people not in the meeting to do this. I suggest that the Finance Ministers meet before 9:30 to see what parts of our present discussion can be retained.

President Ford: The Carlton group has developed a draft that could be a good basis from which to proceed. Starting with the Carlton group draft would benefit everyone.

Prime Minister Wilson: I think that we should put emphasis on the human problem of unemployment. Chancellor Healey is right. We could get growth with little increase in employment.



Chancellor Schmidt: Then, the Finance Ministers will meet at 9:00 tomorrow morning.

Prime Minister Miki: We should not have a lengthy Communique. I propose a brief, succinct declaration to convey the spirit of the meeting.

Chancellor Schmidt: The Finance Ministers will make it as short as possible. They should meet at 9:30.

President Ford: We have a problem with the press. I would like our press to have what I said.

President Giscard: The French spokesman should use certain adjectives to describe this meeting. Finally, each government is free to give out its own remarks. What adjectives might be useful--deep and friendly, frank and fruitful. Is that agreed?

All: Agreed.

END.



Economic Summit, Second Session  
Sunday, November 16, 1975 10:45 a.m.

Trade and Monetary Issues

President Giscard: We agreed yesterday evening that today would be devoted to trade and if time was left over to monetary issues. Our Finance Ministers have been working while our Foreign Ministers have, I might say, been resting.

If agreeable, let us start with the commercial problems. Prime Minister Miki will open this discussion.

Prime Minister Miki: Yesterday Chancellor Schmidt addressed himself to trade in general terms. As Prime Minister of Japan, I would like this morning to make a few personal comments on trade.

Two years ago, at the Ministerial Conference of the GATT in Tokyo, we began the present effort on trade. President Giscard d'Estaing honored us with his presence. Mr. Ohira, then Japanese Foreign Minister, chaired the meeting. We issued the Declaration of Tokyo, which has proved to be very effective and appropriate. This was adopted, of course, prior to the oil crisis. And we did not properly deal with the subject of raw materials. We should address ourselves to this also in the Tokyo Round.

With respect to freer trade, our emphasis on free trade is consonant with our strong emphasis on human well-being. I would like to recommend that the Tokyo Round be completed in 1977. President Giscard, in Tokyo, said that the cherry blossoms will be in bloom three times before completion. That was two years ago, and would have meant completion in 1976. Now we will need to have them in bloom one more time, four times in all. But if they bloom five times, it will not be satisfactory. We should try to see that the cherry blossoms bloom only three or four times.

All of us have been beset by pressures for import restrictions. We in Japan have been as well. Our textile producing neighbors have made inroads into the Japanese market. As a result we have had requests for protectionist measures in our country. But in spite of domestic difficulties we in Japan have taken an adamant stand to avoid restrictive measures, and have tried hard to avert them. If one country imposes restrictionist barriers, a chain

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reaction is inevitable. Next spring there will probably be better business conditions. But now we should make a clear stand not to resort to protectionist measures. We must avoid the mistakes of the 1930's. This meeting should agree that there must be no restrictionist measures on imports in our countries. This statement would be a good result of this meeting.

With respect to the developing countries we must recognize that trade is important not only among developed countries, but also should be expanded between developed and developing countries. In this spirit we must recognize that the developing countries have exhibited serious deficits -- \$30 to \$50 billion this year. We cannot expand our exports and total world trade in light of this huge build-up of deficits. We should try to find ways to increase the purchasing power of the developing countries. I will refer to this further in the North-South discussions later. If we can overcome the financing difficulties of the developing countries we can also help expansion in the developed countries.

These are the basic problems to be addressed by the group here.

Thank you.

President Ciscard: Prime Minister Miki should be the moderator of this discussion. Is that okay?

Prime Minister Miki: Okay. Would any of my colleagues like to respond, in a frank and candid way?

Prime Minister Wilson: All agree that it is important to have an early and sustained recovery in international trade. The decline in trade is having a disruptive effect on economies, and this on top of the disruptive effect of oil price increases on trade and payments. The problems we face are the most formidable challenge to trade since 1947.

As I stressed last night, countries with strong balance of payments and good inflationary records have a particular responsibility. Unemployment is one reason why countries resort to trade restrictions; protectionist pressures will worsen if these problems cannot be overcome.

We need a Marshall Plan type initiative, especially for the Third World. But unlike the Marshall Plan this should be international in origin, and should not be based solely on the generosity of one country, as the Marshall Plan was on the US. Now no one is suggesting that this should be one-way generosity across the Atlantic. We are dealing with the problems of trade on an international level. Unless we can solve our problems, there will be protectionist pressure by those desirous of increasing employment.

We will deteriorate into an everyone-for-himself situation.

All of us have recognized, in the Declaration we have signed (OECD Trade Pledge), that as a general rule such protectionist measures would merely shift the problems from one to another. We recognize the need to resist generalized protectionist measures. But we also must insist on retaining our right to take actions to protect our interests in accordance with GATT rules. The UK has been a strong supporter of the GATT, we have been quite gentlemanly in living up to its rules, and we adhere to it strongly. I myself headed the UK delegation to the meeting which drew up the GATT, which lasted six months. We spent more time on the Havana Charter, although that was not ratified, as we know. The GATT lasted longer than its progenitors thought it would. This is consistent with your French saying, President Giscard, that it is the temporary solutions which last the longest.

We recognize the US problems in the Trade Act. The US has no alternative but to let the Trade Act take its course. I recognize fully that the US has eschewed protectionism, and this is to be commended. But we are alarmed at the number of petitions submitted under the Act. We have been relieved to hear the statement of President Ford and other officials on their intentions to avoid irresponsible measures. And we have been gratified by your actions. We commend especially your decision to reject the petitions on the VAT steel case with respect to the EC. We hope that the administration will proceed in the same manner in the future.

We know also that the US has not felt itself bound by the GATT on countervailing duty issues. The US has resorted to the grandfather clause under which laws previously enacted can continue in force even though inconsistent with the GATT. This applies to not accepting injury findings before beginning a countervailing duty investigation. And anti-dumping codes also are not respected because of prior legislation. I understand of course that you, President Ford, are aware of these problems.

There is no quick result in the trade area. The situation will benefit from the things we discussed last night to achieve economic recovery. And, as I said last night, we should watch the situation in case of hiccupping recovery anywhere. But I agree with Prime Minister Miki--progress in the multi-lateral trade negotiations can achieve psychological benefits as well as long term trade liberalization.

President Ford: The US is very firmly committed to the goal of an open world economy. This can best be served if we join in leadership of a new



round of multilateral trade negotiations. I suggest we try to reach agreement on the following goals:

- Substantial tariff cuts no less ambitious than in the Kennedy Round.
- A reduction on non-tariff measures through the negotiation of agreed codes on subsidies, standards and government purchasing practices.
- The elimination of all tariff and non-tariff barriers in some commodity areas.
- Completion of the tropical products negotiations in 1976.
- Additional arrangements for meaningful, special and deferential treatment for the developing countries.
- A significant improvement in the trade regime affecting agriculture.

In the past year, our US negotiators have had extensive consultations with Congress and private sector groups in order to establish a broad consensus in support of US aims. These deliberations have confirmed the goals which we set ourselves in the Tokyo Declaration two years ago, and which form the foundation of my proposals today.

We in the United States are, therefore, prepared to move forward with renewed vigor. I urge you to join me in directing the negotiators of our respective countries to expedite their efforts so that the Tokyo Round can reach its final stage in 1977. I suggest that our trade negotiators meet at the earliest opportunity to work out the details of a forward-looking program, which could be adopted at the next meeting of the Trade Negotiating Committee in December.

In looking for a way to expedite these negotiations, I must frankly raise an issue that has been a source of great difficulty in assuring progress. We in the United States recognize that domestic agriculture programs are a very delicate political problem in other countries, as they are in the United States. It is imperative, however, that we work out a mutually acceptable basis for limiting distortions to trade in agricultural products. In this connection, we should not allow procedural difficulties to prevent substantive negotiations on this issue of vital interest to all countries.

By joining together in support of a program that will infuse vitality into the multilateral trade negotiations, we can best assure a positive attitude in our countries toward our common goal of an open world economy. The



tremendous expansion of trade in the last 25 years, from a level of \$50 billion to \$800 billion, has been of great economic benefit to our countries in terms of new investments, new jobs and a higher standard of living. These gains cannot be preserved without a serious and forward-looking political effort on our part.

As a result of our current economic difficulties, there are forces abroad in all our countries seeking to distort patterns of world trade. All of us need to make a special effort to resist these pressures on a cooperative basis. I urge you to join me in the following set of principles to guide us during this difficult period:

- We should resolve issues giving rise to the most difficult domestic pressures through negotiation in the multilateral trade negotiations;
- We should jointly resolve to avoid all policy measures which might prove disruptive to the trading interest of our countries;
- We should agree to resort to limited emergency trade measures only in particularly acute or unusual circumstances, and we should be prepared to fully utilize existing consultation arrangements;
- We should instruct our negotiators to successfully conclude the "Gentlemen's Agreement" regarding export credit;
- We should reaffirm our adherence to the OECD Trade Pledge, and express our intention to renew it next spring.

Consistent with such a cooperative approach, I pledge to deal with problems in our bilateral trade relationships on a common sense basis. Where flexibility exists under our domestic law and procedures, I am prepared to exercise it.

As the leaders of our countries, with the task to look ahead, we must not allow short term difficulties to divert us from the ambitious goals we set for ourselves in Tokyo two years ago. I urge you to join me in exercising leadership in each of our countries, to restrain those who would resort to unlimited beggar-thy-neighbor policies, and to support those who are engaged in a common effort to negotiate a mutually satisfactory basis for expanding world trade.

Prime Minister Miki: Thank you, President Ford.



Prime Minister Moro: Our approach to international trade is based on the fact that economic development is encouraged by the liberalization of trade through gradual reduction in trade barriers, and tariff barriers in particular. The well-being of people also requires implementation of safeguards systems, improvement in economic integration and better distribution of work and resources.

We should respect these principles at this time of reduction of world trade. This decline is unprecedented in the post-World War II period. It is caused by inflation, recession in developed countries and then in developing countries. In this climate there is a great temptation to envisage restrictive measures. But we should bear in mind the disastrous consequences of a generalized resort to restrictive measures. Some have already occurred. These should be fought against through international cooperative efforts. This cooperation is an alternative to application of restrictions on imports which would harm all countries, and the developing countries first. External demand is essential to economic development in all countries.

The behavior of the industrialized countries is particularly important at a time when we are already perceiving recovery. The responsibilities of the industrialized countries are very great. The strength of our economies is essential to recovery in most other developed countries, and in other countries as well. We should reaffirm in 1976 the OECD Trade Pledge, in which countries are committed to refrain from protectionist measures. It is also important to strengthen work on an agreement to coordinate industrialized country export credit policies. We have been attempting to coordinate credit policy, but have not achieved very satisfactory results. In the short term, we should also coordinate development aid. And we should make an effort to reduce the direct obstacles to trade as well as eliminate disruptions to trade--therefore we need an additional stimulus to the Tokyo Round of trade negotiations. Progress in the Geneva negotiations has regrettably already been hampered by differences with respect to goals, particularly issues relating to the liberalization of agricultural commodities, and differences with respect to certain non-tariff barriers and certain negotiation positions. We would all benefit from working out principles of agreement with respect to goals to be achieved. Opening of markets is essential to deal with the present world crisis.

President Giscard: My statement is similar to what others have said. The question of freedom of trade is closely related to the dangers of recession. In recession there is always a tendency toward restrictive measures, which could result in disastrous effects. We must demonstrate that we are truly resolved to oppose restrictive trade measures. This is an essential political question, with technical overtones. We should not



merely talk more about freedom of trade. The question is what we decide. We must make major efforts to keep frontiers open. We need a commitment to this end here at Rambouillet.

I participated in the opening of the multilateral trade negotiations in Tokyo. Trade was still expanding rapidly then. The situation was that the US had a trade deficit, and Japan and Europe had big trade surplusses. We then hoped that we could complete the trade negotiations in two years, although I thought that might be a bit unrealistic. Now, if we can do it in 1977, it will be a remarkable achievement. We feel negotiations should be continued on the basis of the Tokyo Declaration and should achieve positive results. We should not today reopen the delicate checks and balances between the various considerations. Today we should resolve to promote the negotiations despite changed circumstances. I hope for significant results in the near future.

We should also express support for the GATT. This is the only organization at present in which our group of countries still exercise significant influence. We should express support for the GATT as an institution.

We should recognize that protectionism exists in our countries. In the US, legislation has become more protectionist--especially Section 301 of the Trade Bill. But the Administration has not given in to protectionist interpretations. However, the pursuit of a large number of investigations has a major psychological impact. One-quarter of French exports to the US are now covered by legal proceedings. Our producers wonder where they stand. This cannot help but give rise to protectionist sentiment in our countries. We have protectionist pressures as well. We have taken measures versus Asia to restrain textile imports.

Some middle level countries--Australia, New Zealand, Israel, South Africa, Sweden and Portugal--have also taken protectionist measures. We should recognize that it is not only the industrialized countries who should have open frontiers while the borders of others are closed. We should exert joint pressure to oppose protectionist actions by other countries as well.

I think that this meeting should conclude two things:

- That we are committed to renew the Trade Pledge of 1974 when it expires. We can express the view that we will propose that it should be renewed.
- That our fundamental policy is that we are resolved to pursue open trade, along the lines of the Tokyo Declaration.



Chancellor Schmidt: Mr. President, after the preceding statement it looks like we are all in complete agreement. There are no contradictions at all. However, the tone of the presentations differ slightly. I attach considerable significance to what we say to the world. We should demonstrate a maximum degree of determination. The US statement and that of the French President are very much in agreement. Whereas in the US industries and trade unions, and in France, and in the EC, one can perceive strong trends in favor of import restrictions--trade barriers.

The countries in this room should act together not just because of a deep-rooted liberalism but because the market system benefits us.

We should first of all explicitly pledge ourselves to act to avoid any form of protectionism which could reduce market opportunities and to fight all protectionist measures. This is in the interest of recovery for all of us.

Second, we should renew the Trade Pledge, and state this in no uncertain terms.

Third, we should pledge our governments to step up the GATT negotiations.

Fourth, it would be a good idea if we are able in this conference to agree on export credit conditions. Our Finance Ministers should do this. I am under the impression that agreement would be particularly desirable between the US and French Ministers. Others could offer their good services.

Fifth, it is desirable to explicitly state, for public opinion, that the present world recession is not a particularly favorable occasion to work out a new economic order along the lines of certain UN documents. It is important, however, to improve the structure of world economic relationships, recognizing the interests in the LDC's. We could elaborate on this and say the following things:

- It is fundamental to increase the possibilities of the LDC's--especially their share of world trade and world product.
- It is desirable to promote the transfer of technologies, implement Generalized Preferences, and support all measures to achieve liberalized trade as far as possible with the LDC's.
- It is also desirable to take a concerted approach with respect to the functioning of all raw material markets.



One additional point, there is an underlying danger of agricultural protectionism in the US and the EC. A bilateral move toward protectionism might lead to very undesirable results. My three other EC colleagues might not be in agreement. The US President is probably not in agreement either. In the US and the EC we should recognize the fact, on a mutual basis, that our agricultural sectors have certain characteristics which are undesirable. We should be mutually prepared to discuss agricultural matters in the trade negotiations in connection with economic and political matters in the industrialized sector. This matter cannot be settled today, and should not be referred to in public. But the US and the EC are important trading partners. It would endanger the credibility of our liberal approach to world trade, if, in the agricultural sector, agriculture ministers undermine the general atmosphere.

Prime Minister Miki: We should give credibility to our consensus on the importance of freedom of trade. It is to be hoped that as we make public the results of this meeting, this will constitute a very important item.

Prime Minister Wilson: I would like to add a few words on the Trade Pledge. We reaffirmed this pledge last May for a further 12 months. I do not believe it is useful to add anything to that reaffirmation. We retain our normal rights on such things as dumping, but will exercise them with care, respecting our international, and our EC, obligations. As you will recall, in accepting the Trade Pledge we agreed under the condition that sufficient financing will be available to cover deficits, and that the economically strong countries would assume responsibility to adequately expand their economies.

I have said many times that I do not believe that generalized import restrictions are desirable for the UK. They would ultimately end up by hurting our own exports. One-quarter of our production is for export.

I agree with all that has been said about the Tokyo Declaration and the MTN, and proposals for this new type of Kennedy Round, whatever we name it. Perhaps the American President would be a likely candidate.

Chancellor Schmidt: It should not be the Ford Round because that would be unfair to General Motors.

Prime Minister Wilson: I don't really care if it is unfair to Chrysler.

We rule out generalized import restrictions, but we cannot rule out protection for particular industrial sectors suffering or threatened with serious injury as the result of increased imports. It is particularly important that we be able to protect ourselves in particularly acute or unusual circumstances, as President Ford has indicated in his statement. There are some signs of lethal attacks by other countries directed at destroying two or three

sectors of our economy. These are not lame duck industries. They can be viable when recovery comes if they survive this period, particularly if their survival is not threatened by a concerted attack. Some of these attacks are especially virulent and threatening, such as those from Eastern Europe and Taiwan, and threatens the existence of these industries.

I also agree with what President Ford, I think, said about the need for a mutually acceptable basis for regulating trade in agriculture products.

Chancellor Schmidt: Harold, you talked of viable industries, and indicated that this excluded lame ducks. You referred to textiles as an example. I am a close friend of the chairman of the textile workers union in Germany. It is a union of a shrinking industry. I would hope that this would not be repeated outside of this room. Given the high level of wages in Europe, I cannot help but believe that in the long run textile industries here will have to vanish. We cannot ward off cheaper competition from outside. We will eventually need some hothouse or botanical garden for this industry. It is a pity because it is viable; capital invested in a job in the textile industry in Germany is as high as it is in the German steel mills. But wages in East Asia are very low compared with ours. The garment industries in France and Italy, which make high fashions, will survive. They are ingenious and creative and will survive. The German textile industry is viable, but will vanish in ten or twelve years. We should not, however, speed this up during the recession; but it will happen.

Also, Harold, are you talking of motorcars? There are rumors in the US and UK that people want to exclude foreign auto imports through certain ingenious methods. Germany is a major market for Italian, French, and Japanese cars. If they are cheaper they ought to be sold there. If we try to ward off competition, we will add to world recession, economically as well as psychologically. Resisting such pressures is what I meant when I said that we must explicitly pledge to fight tendencies toward trade restrictions in our countries.

I see both motorcars and textiles as viable. The textile industry will have to suffer in the long run but motorcars will survive. These industries can be innovative and viable over the longer term. If we resort to restriction of industrial production, we are hurting world trade.

Prime Minister Wilson: I accept Chancellor Schmidt's distinction between short and long term. I have long experience with the textile industry. It has shrunk at a faster rate in the UK than in Germany. Now it is a highly modernized industry. A great deal of capital has been invested, increasing productivity while reducing the number of workers. It does not have to



vanish. Some parts of it are highly specialized. Not all will have to go. But I agree there is a difference between what will happen in a few years and what happens during this recession. I believe that predatory attacks from abroad will have to be resisted. Sometimes, however, they are difficult to prove, as in dumping.

With respect to footwear, the worst abuses to fair trade come from Eastern Europe. We think some of these are planned. On the matter of motorcars, I too take the view that this industry can and will survive. The industry has a bad headache at the moment. We are restructuring British Leyland which was out of date. We are providing capital on a competitive basis, not on subsidized terms, for restructuring this industry. I am confident that the US interests in the UK car industry are viable--Ford and Vauxall are indeed competitive.

I agree also with the distinction between autos and textiles. All textiles are now tied together under a multi-fiber agreement. We all recognize the problem in textiles. When I talk about viability, I do not say they will survive indefinitely. The problem is letting industry go down in a recession, aggravated by attacks, go out with their throats cut.

I recently went into a shop in my Liverpool constituency to buy a shirt. I couldn't find one of the kind I wanted with my neck size. But I did see an array of shirts from Korea on a table as big as this room. They were being sold at a price which I regard as a dumped price, but this is difficult to prove. Our textile industry is revivable; it is not a write-off. But we are going to make efforts to subsidize textiles in assisted areas, giving them reasonable help. Eventually some of them should shift out into other areas, such as chemicals.

President Giscard: Since this is a meeting of heads of government, the conclusions belong to the heads of government. There are two things we should do. We should agree not to engage in protectionist measures and we should express our determination to accelerate the MTN along the lines of the Tokyo declaration.

But we should avoid the Helsinki danger which is that public opinion does not believe what we say. If governments, a few weeks later, take measures in the opposite direction of what we say here, people will not believe our declarations at this meeting. On the Continent, it is believed that the UK is going to implement generalized import restrictions. If this were done people would say our deliberations here were not credible. Prime Minister Wilson's statement allows us to take a more vigorous attitude.



My position on adjustment is one-half of the way between the Chancellor and Prime Minister Wilson. Many of these industries can survive if they evolve, if they specialize. The US textile industry is highly specialized; it produces goods of high quality, and for that reason it can survive. We need specialization along with a modification in size. We in France still make fine materials. We leave the ordinary production to others. To generate this kind of evolution we need to accept market pressures. We must avoid gigantic immediate problems resulting from imports, and therefore we may need certain sectorial measures.

Our system of price competitiveness does not fit in well with Eastern Europe. Competition between ourselves is an objective fact. Some of our prices are lower than others and that is the way we compete. With respect of imports from Eastern Europe, no one knows if prices correspond to production costs. We will have to give thought to the problems raised by Eastern Europe. We cannot tell if prices are calculated on the same basis as ours.

President Ford: The US auto industry is viable. It has responded well to market pressures. The evidence is its resurgence, which we believe will continue next year. For a period of time it did not respond well to the demands of the US public for smaller and more efficient autos. Now we have responded to pressure from Europe and Japan.

Although this year the US auto industry, particularly labor, sought action under the trade law for an investigation, I am convinced that we have met the challenge. I cannot forecast with certainty the same results as in the case of the steel industry matter. The auto industry will respond, and be viable, and will not force the US to adopt a protectionist attitude. The Administration will resist actions by labor and management in this test case.

Prime Minister Miki: We in Japan suffer from some imports like North America and Europe. Particularly we have a problem vis-a-vis imports from Asia, where most countries have lower wages than Japan. It is important for our countries to engage in collaboration, getting information on a mutual basis to resolve problems of this kind. We should avoid engaging in measures in violation of the principles of free world trade in solving each of our problems. We should make a determined stand on the inadvisability of restricting trade.

President Giscard: I think we have concluded this discussion of trade. The Foreign Ministers should give thought to these issues. Now I would like to go to monetary issues and try to conclude them before lunch.



Monetary Issues

President Giscard: On monetary matters, the technical side is enormously complex. Certain people here know the technical aspects very well. But our discussions today should be on a political level, to determine a particular orientation. We had the Bretton Woods system, which we lived under for years. It worked well until the 1970's. It was a sort of religion. When people criticized it they were condemned for heresy. From 1970 on it began to fall apart. Now people who speak well of it are treated as heretics.

We are at present in a floating situation. Canada, Germany, the US, Italy, France and the United Kingdom all took decisions to bring that about. This was not a collective choice, but successive individual decisions. Under the floating system, we have had deep fluctuations. People in favor of floating feel that the market is just as qualified as statesmen to decide on exchange rates. The main spokesman for this view was Carl Schiller, who has since disappeared from the scene.

Chancellor Schmidt: Thank God!

President Giscard: There have been considerable fluctuations in currencies in recent months--and particularly the dollar versus the European currencies--that did not reflect the relative economic situations. These changes were purely monetary in nature. They reflect the technical situation in the market, not the real situation. The economic situation in our countries did not change 25% in a two or three month period. The problem this raises is that whether whole sectors in our economies are competitive or not depends on the value of our currencies with respect to the dollar. This determines what we can or cannot sell. It is futile to discuss lowering of tariffs from 7 to 5% since this means nothing if there are major changes in the relative value of currencies. These fluctuations are a source of disorder in the world economy. They have contributed to the world recession.

It is desirable to have more stable exchange rates. We could, in my view, set up a more stable monetary system. But some say that conditions are not right for such a system. We need not discuss this today. I know the US position. Would it not be more striking for us to reach agreement here--for the great Western Democracies to attempt to bring order to the international monetary system? We could in this way have a more positive impact on the evolution of the world economy than we could by not making a decision.

For East Europeans it is incomprehensible that industrialized country exchange rates change so much. The developing countries also see this as decadence.



But we should not now reach agreement on this, and we need not discuss it at greater length. There are two other possibilities--to discuss what a more stable situation in the future might be, and to determine how to improve the IMF. At the Nairobi meeting of the World Bank/IMF we agreed on a future monetary system, although we have subsequently not managed to finalize the form. Hopefully we can reach some agreement in Jamaica. If we could move this further, it would be a good step. Today we should not have a theoretical or technical discussion on the future situation, but we can today give the world the impression that the monetary system will be more stable.

Japan wants greater monetary stability versus the dollar. Italy and Britain have internal economic policy situations which require managed flexibility in their external affairs. They require a certain leeway. France, Germany and Benelux have managed to stabilize exchange rates among themselves. But there are fairly strong fluctuations between the seven countries in the "snake" and the US dollar. Can we stabilize the rate of the seven with the dollar? The Italians are apparently nearer to joining the "snake" than earlier, which should make a contribution.

Could central bank action, already successful in reducing monetary instability, do something more? Could this improve stability with respect to the dollar? In the present circumstances there are no agreed parities, but I regret this. We should in any case try to give more stability to the system. Let the central banks set up a more active exchange of information. Let us see if it will be possible to reach agreement at Jamaica on changes in the IMF rules. We should aim at a more active role for central banks in stabilizing exchange rates and for reform of the IMF.

Chancellor Schmidt: The French proposal is useful, and conciliatory, if one looks at the substance.

First, a more general remark for public use tomorrow with respect to financial issues. The highly volatile movement of exchange rates in the last two and one-half years, and the enormous sequence of meetings under the IMF umbrella, give a bad impression to our publics. They convey a message of uncertainty and unpredictability in the world economy. This is not so bad for our countries or the multinational corporations, or for big national corporations. But it hurts the small countries, and enterprises who just cannot cope with uncertainty about exchange rates, or make long term deals if they don't know what the exchange rate will be even 24 hours from now. Big countries and corporations can deal with it. Small ones cannot.



For public use we need to stress greater continuity and calculability with respect to the monetary system. In effect what we have now is not a system, it is a constellation.

With respect to the French points, I agree that fluctuation between the dollar and the "snake" must be reduced; this is the key to dampen volatility of world exchange rates. For individual European countries, 50% or more of trade takes place at stable rates within the realm of the "snake." Trade has not decreased as much within the "snake" countries of Europe as it has with other nations outside of Europe. We should show that we have not only the intention, but also the will to dampen exchange rate volatility; thereby, we can add to world recovery.

It is worthwhile to consider whether we should publicly say we would try from both sides, by intervention of central banks, to dampen the world movement of exchange rates. We have had some success in 1975. We should not fix a margin, because if we do so, markets will try to move against it. Couldn't we build on what has been done so far through the intervention policies of the central banks. We should make clear that the US is interested in dampening volatility. I know that more action to intervene by the US central bank would not make much difference. You have to borrow through swaps in order to intervene. But you can give the impression that you are interested in dampening volatile movements.

I come back to the Jamaica meetings. Looking back through history, I find it very difficult to understand the enormous prestige invested by more than just one country participating in this discussion in the future of the monetary system or the IMF. What Valerie said was forthcoming. He did not insist that as soon as possible we go back to fixed parities. This should be honored by the other side. We should ask our Finance Secretaries in Jamaica to arrive at a solution based on the results of the discussions of the IMF Interim Committee, which met in Paris a number of months ago. This compromise quite rightly put stability of the system, or constellation, into the foreground. It envisaged fixed parities as an ultimate end.

Fruitless meetings of the Finance Secretaries are devastating. They are diminishing confidence and will continue to do so if we don't get results. We cannot now have a system of fixed parities. We have already dampened floating rates. In the end we all know we want fixed parities though. The endless discussions are creating uncertainties in industries. Let's get that out of the way. We should agree in Jamaica on a modus vivendi -- state what we are doing and end the struggle on theology. I know of the difficulty this poses for the US, since it is opposed in the Senate. But all of us here have oppositions.



We should not, at this time, make these arrangements public. But we should agree here and stop the discussions. I say this from an economic and political point of view. People just don't understand the future of the monetary system. People are reading of the irritations among us on this issue, and when they read of these irritations they become irritated themselves.

President Ford: During the past year there have been intensive negotiations by our Finance Ministers to complete a package of amendments of the IMF Articles of Agreement in order to accomplish reform of the international monetary system. Progress has been substantial but arrangements have not been completed. We all share the broad objective of exchange stability, but we all agree that a system of exchange rate arrangements based on par values would not be viable at the present time. I would further state that the US and France have reviewed these issues and we have resolved our differences on exchange rate matters. This will be an excellent signal that this overdue agreement can be signed in Jamaica. I hope that the Finance Ministers can reach final agreement today or tomorrow.

I hope we can also explore ways to achieve more stability under current economic conditions. We believe that the resolution of these issues must be firmly rooted in the successful management of our domestic economies. The international exchange system that is adopted must permit each country to choose the exchange rate regime that will permit it best to pursue its desired growth, employment and stability policies while meeting its obligations to other countries to avoid trade and cooperation restrictions and other beggar-thy-neighbor practices. Consistent with this concept there are a number of alternative formulations that might be considered.

In seeking to maintain orderly conditions in exchange markets, we should be aware that no regime that runs counter to market realities could remain in effect for very long. Within that constraint there are a number of concepts that might be adopted.

Our experts have been working on these problems for some months. They have made good progress. They have especially made major efforts prior to this meeting. I think we all share an interest in rapid resolution of these questions, even though present arrangements are working well. We have made a major effort prior to this meeting with each of you to resolve these questions. I hope that we can reach agreement by January of next year.



Prime Minister Wilson: I agree with President Giscard d'Estaing's forthcoming and conciliatory approach and with President Ford's statement. We should not allow dogmatic beliefs to hinder progress. We should separate long term from short term objectives. Our emphasis should be on stability in the long term with adequate ways for prompt and adequate adjustment.

Now on the issue of goals and stability, etc., there is a difference between France and the US. This brings to mind the ruling of a Yorkshire judge on a rape case. He was very deaf and did not hear a word of the evidence. For seven hours he thought he was listening to a case of a breakdown of a marriage. After seven hours he ended the proceedings with the comment, "What a pity that these two young people cannot get together." In my view the heads of government should tell their Finance Ministers to settle this before the Interim Committee Meeting in Jamaica. They should bring this problem back to the Group of Ten next month.

Prime Minister Miki: I had the notion that differences between the United States and France might create confusion at the meeting. I welcome the conciliatory relationship between France and the US. There is nothing illegal or inconsistent about floating. Since we are now caught in a period of inflation, recession and economic conditions of continuing instability, conditions are not ripe for moving to a fixed parity system. We must distinguish between the long and short term point of view. Attempting to reach an agreement in Jamaica in January is the most practical thing at this time.

Prime Minister Moro: The French analysis contains thoughts which we can largely share. We should not give up the purposes of a more stable system, which is the one which prevailed until recently. We should all bring a contribution. It is desirable to have a certain discipline in dealing with fluctuations, but Italy and Britain now need a certain amount of flexibility as well. We will do all we can to reenter the "snake." Agreement should be reached on the issue of stable exchange rates taking into account the Giscard approach and the US President's constructive views.

I was impressed by Chancellor Schmidt's statement. I agree that mention should be made in the Communique of the desirability of central banking system participation and agree that they can be helpful. I hope the Finance Ministers can put it in the Communique.

Chancellor Schmidt: I agree with what has been said.

President Giscard: I am interested in what happened with respect to the rape in the UK before World War I. The way this issue of exchange rates



is presented should emphasize that we are meeting here to tackle the difficulties of the world economy. The question of theological attitude or final situation did not come up here; we were considering what is needed now. We should emphasize the cooperation among the Finance Ministers.

I am not sure I agree with Chancellor Schmidt--do you really think that we should stop the Finance Ministers from enjoying the beauties of the good life at their frequent meetings? But I agree we should reach a solution.

There is a possibility of a common attitude with respect to Jamaica. I recognize that it is mainly between the French and US Finance Ministers to work things out, although they should meet with their other colleagues to make certain that the agreement fits with their attitude. This matter is the first priority for the Finance Ministers to include in their discussions.

This afternoon we should do energy, raw materials, and developing-developed country issues. We will meet without the Finance Ministers, only with the Foreign Ministers. The Finance Ministers will work on the first part of the Communique. The Foreign Ministers will then meet tomorrow to discuss the follow-up. Also at that time the heads may exchange information among themselves. We can do that after dinner or tomorrow morning.

Do the Foreign Ministers prefer to meet tomorrow or tonight? If it is agreed, the heads will meet among themselves tomorrow morning. The Finance Ministers will meet together this afternoon at 3:30. We will meet at 4:00.

President Ford: Mr. President, you expressed interest in having a discussion of New York City. When would it be appropriate to do this? Now, or this afternoon? I think the Finance Ministers might like to hear this too.

President Giscard: Let's do it now while the Finance Ministers are here.

President Ford: Over the last four months I and the Economic Policy Board have met with the Mayor of New York City and the Governor. They have proposed to us orally the things they are going to do. But over the last three months there has been no firm proposals of a viable nature. Nothing written. Over the last 72 hours, however, the following has been agreed to:

- The State will impose certain additional taxes, and identify specific reductions in city and state expenditures.



- They will enact a state statute along the lines of what was enacted in the 1930's providing for renegotiations of obligations of investors.
- As a consequence of enactment, there will be a renegotiation of bonds, extending maturities and lowering interest rates.
- The labor organizations will renegotiate their pension plans which were heretofore uncontrollable and excessive.

If all these things are done, there will be two possibilities:

- The possibility that with the strong measures I have identified, private money would meet the seasonal demands of New York City. If all these things are done, New York City will have a seasonal five months demand for \$1.5 billion. Over the next seven months, they will have a cash flow such that at the end of the twelve month period they will end up at 0. The second year they will need \$5 billion on a seasonal basis, but after the twelve month period they will again end up with 0 deficit.
- If these things are accomplished, and the banks are unwilling to meet the problem I would probably recommend legislation either to guarantee the obligations of the City to meet the cash flow problem on a seasonal basis or legislation to loan to New York City necessary money to meet the cash flow problem with a lien against money advanced by other government programs. This should satisfy the questions and the psychological concerns that many people have in the US and the world.

The problem earlier had been that we have had promises but no written proposals for action--no action by the City, State, financial institutions or unions. If they do these things, these courses of actions on a technical level will be taken.

The only way we have achieved results is to be difficult. But I want to tell you that I have gone further here than I have publicly. This has been a sort of brinksmanship by the Administration forcing New York City and New York State to take responsible action.

Chancellor Schmidt: Let me express my gratitude, Mr. President, for your statement. I am relieved. I was concerned about the drastic effects in other countries. I also want to excuse myself for the blunt remarks in New York City a while ago.



President Ford: There were people in our countries who sought to generate apprenension and concern. People felt we had been discounting the adverse effects had the City gone into default. It was my belief that by keeping pressure on the politicians in New York faced up to things they had to do. Let me add also that the relationship between the city and state governments and the federal government in the US is different from those of Europe. By patience and firmness our policies will achieve satisfactory ends.

Prime Minister Wilson: Thank you for your reassurance. Could you tell us further whether you want it mentioned to the press that you discussed New York City? Would it be better if there were no comment on the fact that New York City was mentioned.

President Ford: This is very sensitive internally. I think it would be best if the fact that this was mentioned was not made public. If there is advance information that we are caving, necessary action will not materialize.



Economic Summit, Third Session  
Sunday, November 16, 1975 4:00 p.m.

Energy, Raw Materials, and Development

President Giscard: I turn the floor over to President Ford, who will begin the discussion of energy.

President Ford: Strong domestic energy programs are absolutely critical. As the largest consumer of energy, the United States is determined to be in the forefront in conserving energy and developing new supplies. We have defined our short and long term energy objectives and reorganized our government machinery to achieve them. Our goal is to dramatically increase all domestic energy sources, decrease demand, and cut oil imports sharply. Our target is to hold our imports of oil in 1985 to a level 10 MMBD below what they otherwise would have been. Conservation will account for half of this massive import reduction; new domestic supplies for the remainder.

The achievement of these objectives will require a tough, comprehensive national program of energy conservation and accelerated energy production. I submitted such a program to the Congress in January. The national energy debate has been lengthy, and progress has been slower than we had hoped.

The Congress is now in the final stage of completing a comprehensive legislative package on energy. This legislation does not cover fully the proposals I made in January. In some areas, it would provide a good basis for a serious national energy program, including conservation. In other areas, however, such as the domestic pricing provisions, it falls short of what I had proposed. We have made significant legislative progress, but we still have a long way to go.

The new energy bill has some attractive features. It would provide many elements for a medium term mandatory energy conservation in the United States. For example, it would impose new automobile efficiency standards; it would create new incentives for more efficient use of energy in private industry; it would establish efficiency labelling requirements for electrical appliances; and it would create a new program under which individual states will be encouraged to develop their own energy conservation programs.

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At the same time, this energy bill could substantially strengthen our ability to withstand any future embargo. It would provide me with the authority I need to impose mandatory restraints on energy consumption in a crisis and take the other emergency measures necessary to implement the IEP oil sharing agreement. In addition, the legislation would authorize the creation of a large, new emergency oil stockpile. We would be able to initiate promptly a strategic storage program of 150 million barrels, with an eventual target of one billion barrels.

However, the provisions of the new bill dealing with domestic oil prices are less satisfactory. The question of price decontrol has been perhaps the most controversial issue in our domestic debate over the past year. I strongly advocated the removal of artificial price controls on our domestic oil out of conviction that these prices should reflect actual market value. Others have wished to defer any decision on the future of price controls, arguing that the economic impact of decontrol would be unacceptably harsh. The bill contains a proposed compromise on this key issue. The composite domestic oil price would be rolled from \$8.75 per barrel at present to \$7.66 in 1976 and then allowed to increase gradually with eventual full decontrol after 40 months. The pace of decontrol is much slower than I would have liked. Because of less than completely satisfactory pricing provisions, but other very desirable elements, I will carefully review this bill after it is completed before making a final decision.

I should stress our conservation effort over the past year, even without the new program, has produced substantial results. As a result of higher prices and increased public awareness of the need for conservation, the US is using one million B/D less of imported oil than would otherwise be the case. This saving, which has already been adjusted to remove the effects of the economic slowdown and bad weather, translates directly into reduced demand for oil imports. These savings will continue to grow.

We also initiated a voluntary automobile fuel economy program to ensure that automobile manufacturers increase by 40% the efficiency of their vehicles by 1980. This program will lead to an import savings of two MMBD by 1985. In the 1976 model year alone, a 17% increase has been achieved. In addition, we have undertaken major programs to expand the use of coal in place of oil and gas in existing power plants and to encourage construction of new power plants for electrical generation that do not depend on imported oil. To stimulate development of new supplies, we are:

- Moving rapidly forward to complete a pipeline to begin moving Alaskan oil to markets in the lower 48 states by 1978.



- Accelerating the leasing of frontier OCS areas.
- Seeking authorization for a \$100 billion Energy Independence Agency to provide financial support for new energy projects.
- Working with Congress to complete action on an \$11 billion synthetic fuels program to complement our unprecedented research and development effort and make commercial production of synthetic fuels a reality.
- Actively encouraging construction of a fourth uranium enrichment facility by private interests to enable us to achieve our ambitious targets for nuclear power and ensure that we meet our commitments to provide enrichment services to foreign purchasers; and
- Expecting early congressional authorization to open up our substantial Naval petroleum reserves for exploration and development.

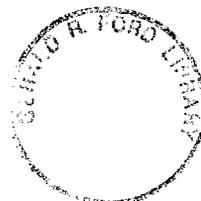
These actions will bring on millions of barrels of additional domestic oil supplies during the coming years. I am also pressing Congress to end price controls domestically-produced new natural gas, and the Senate has already voted to do so.

I am convinced that these and other new measures that make up our comprehensive program will enable us to achieve our energy objectives. I am fully committed to their realization, and I am convinced that the American people will support me in this effort.

While recognizing the preeminence of national programs in meeting the energy challenge, we have all participated in varying degrees in cooperation and collaboration among ourselves and with other major oil consuming countries. Our bilateral consultations have been extensive and productive. We have joined together in the OECD's Financial Support Fund to protect against destabilizing movement of OPEC assets. Some of us have agreed to an oil sharing arrangement in the event of a new embargo and supply disruption. We attach particular importance to this achievement.

After months of negotiation, those countries that have chosen closer collaboration are nearing agreement on concrete measures to implement their commitment to long term cooperation. The package of measures include:

- Review and comparison of members' conservation programs to encourage greater effort and identify particularly effective elements for emulation by others



- General and specific incentives to stimulate development of new supplies, including a minimum safeguard price and a framework of cooperation on individual energy projects with provisions covering non-discriminatory access to investment and product; and
- Reinforcement and extension of national R&D activities by a pooling of effort under joint strategy and including jointly financed projects.

The minimum safeguard price mechanism and the access provisions for project-by-project cooperation stand as concrete manifestations of members' solidarity and are highly important to a coherent program of cooperation.

I think the access commitment is particularly important. The United States sees significant potential for using this type of cooperation to develop new supplies of advanced energy as well as some new conventional energy. All new energy will be costly in capital terms and make great demands on our capital markets. We welcome investment by countries with limited energy resources, recognizing that they would find participation particularly attractive if it increased the amount of energy available to them. To promote this type of cooperation, we are prepared to make the following offer: In return for other countries participating in large new projects in the US which develop energy that would otherwise not have been produced, we will wherever feasible guarantee that a portion of the incremental energy production can be exported. Projects will be considered on their merits in their environmental, economic and regional context. In some areas, where environmentalist and other concerns are great, we will have less scope than in others. We think a commitment of this kind is a major innovation in international cooperation. We are prepared to discuss it in detail with other consuming countries.

The package of measures for long term cooperation in conservation, the development of new supplies, and R&D will complete the framework of our energy cooperation. It will ensure that our individual and collective efforts will be adequate to achieve our objectives. It is imperative that the early December deadline for the adoption of the program be met. Once the program is in place, it will be possible to devise arrangements for other industrialized countries to participate in our cooperative programs, including R&D and the development of new energy projects.

We believe our individual and joint efforts to reduce our vulnerability are consistent with our common desire for a broad and constructive economic dialogue. A clear demonstration of our determination to master our energy destiny will enhance our bargaining leverage and facilitate our guiding the discussions in productive and non-confrontational channels. To do so most



effectively, the representatives of the industrialized countries should coordinate in advance their positions on the substantive issues.

We think the dialogue will contribute significantly to a more cooperative atmosphere between developed and developing countries and to a more rational search for mutually beneficial solutions to our common problems. As our own efforts have demonstrated, we are committed to a successful dialogue. We commend the Government of France for its initiative.

In our opinion, the dialogue should be used primarily (1) to encourage the oil producers to develop greater awareness of their own stake in a growing and stable international economy, thereby reinforcing the moderate OPEC countries on pricing decision, and (2) to set in motion effective and cooperative programs by producers and the industrialized nations to ease the LDC's economic and financial burdens caused by high oil prices. We are particularly concerned that financing of LDC's payments deficits will become acute by next year and believe that this problem, and all its ramifications, should be fully considered in the dialogue.

We do not think the dialogue will enable us to negotiate an agreement on oil prices at a cost we are willing to pay. The producers are not likely to cede their unilateral control over prices or to agree to reduce prices. The consuming nations would reap little or no advantage from indexation or any similar arrangement that would freeze prices at their current real level. This would legitimize current high prices, neutralize LDC and market pressures, ratify the gains of the cartel and make cartel management easier, and expose political leaders to the charge that they are conspiring with producers to drive prices up.

Thus, we must continue to deal with high and uncertain oil prices with our own energy programs. High oil prices cannot be ignored; they have shaken our confidence, diminished our ability to deal with our problems, and compromised our economic development. There is no easy way to end our vulnerability and regain our freedom of action. We each must take the hard decisions necessary to implement and sustain strong and effective domestic energy programs, whose combined effect over time will be to shift the balance on the world oil market. To reinforce our individual efforts and to provide political impetus for greater future sacrifices, I hope that at the Summit we will pledge our nations to a maximum effort to reduce our dependency on OPEC oil imports in order to enhance our own economic well-being and to contribute to the long term energy needs of the world.

Chancellor Schmidt: I should like to ask the President to repeat the precise terms of the offer he referred to in connection with the participation by other countries in the major energy programs in the United States.



President Ford: Let me repeat what I said. In return for other countries participating in large new projects in the US which develop energy that would otherwise not have been produced, we will wherever feasible guarantee that a portion of the incremental energy production can be exported. Projects will be considered on their merits, in environmental, economic and regional contexts.

Prime Minister Wilson: In his presentation of energy questions the President discussed the CIEC. striking and encouraging feature about the point at which we now stand in our relations with the developing countries was the marked difference in atmosphere between the Sixth Special Session of the UN General Assembly and the Seventh. This improvement was, in particular, due to a realization between developing countries that confrontation, as expressed in the Sixth Special Session, was not getting them very far. They realized that the adverse effects on the world economy of the oil price increases and other factors meant that the unilateral demands being made on some of us were not going to be met. And perhaps they saw a better prospect of real advance to themselves from negotiation rather than from an adversary, confrontational relationship. Their attitude this year has been consistently more realistic than in the past.

You may be aware of my commodity initiative at the Kingston meeting of the 34th Commonwealth Heads of Government last May. The Commonwealth represents an important grouping in the UN, and accounts for more than a quarter of the UN membership and more than a quarter of the world's population. The debate at Kingston demonstrated the continuing value and importance of the Commonwealth as a forum for advanced and developing countries--from Europe and indeed all five continents--among whom new issues could be looked at from the point of view of both types of countries.

Although the confrontation between the developed and developing nations was never of our making, we in the industrialized world have played a full part in replacing it by the present armistice. At the Seventh Special Session, the UK's proposals at Kingston, the united approach by the EC and the wide ranging US proposals led to the final resolution of the session. This would have been unthinkable a year earlier. We must demonstrate in the future the same unity that we then achieved or the Group of 77 will divide us.

We must work hard to maintain and build on the new atmosphere of consensus both at the coming UNTCAD meetings at Nairobi next May and before that at the CIEC. We must, however, take care that discussions in the CIEC and its commissions not cut out the IMF, IBRD, GATT, and UNCTAD, to name only four.



We must not, however, deceive ourselves into thinking that the consensus so far will be easily preserved. We must of course aim to make progress in directions, and by means, which would promote rather than damage a healthy world economy and our own individual economic development. The developing countries face fearsome problems. And our relationship with them, the poorest in particular, must be an evolving and not a static one. The plight of these countries is serious. Their terms of trade are deteriorating because of the continuing world inflation, the high cost of oil, and falling export prices. At the same time they are facing a prolonged recession in their normal export markets.

During 1975 the non-oil producing developing countries had to reduce the volume of their imports by 15%. Things are not likely to change until there is a substantial recovery in world trade. They are not only having to pay for the oil which they did not produce themselves, they are also having to pay for oil-based fertilizers, and are thus doubly impoverished. These countries, therefore, have an urgent and substantial need for balance of payments assistance if they are to reverse this fall and restore some prospect of domestic growth in 1976-1977. To help them is not mere charity; a recovery in their buying power will serve as a fillip to world economic recovery from which we will all benefit.

The poorest countries are facing the bleakest prospects. For these countries at the margin of subsistence there has been no growth in per capita GNP for the last two years. For them, there is the prospect of an average rise of no more than 1% a year, if any, for the rest of the decade because they will benefit less than the richer developing countries from a recovery of world trade. In addition to balance of payments support, they will need concessional aid in order to avoid unmanageable debt servicing problems in the future or a drying up of purchases. We in the industrialized world all faced problems in the past 20 or 30 years where we had to give loans to help countries in debt servicing needs.

The industrialized nations face, in differing degrees, the problems of inflation, unemployment, balance of payments deficits, and the achievement of recovery without inflation. We will be able to offer the developing countries little as a result, and certainly far less than the minimum they feel is their right. And even in holding the line we set ourselves a most difficult task. But in the UK, despite cutbacks in government expenditure, we have not only held but even increased the percentage of our resources spent on aid. We must do what we can to help these countries. Our strongest ally will be a recovery of world trade, which would help us and the LDC's. This makes it still more essential as yesterday's discussions showed, to promote early economic recovery.



At the Seventh Special Session a number of special proposals were made to increase directly the purchasing power of the LDC's. At Kingston I stressed the need to stabilize commodity prices and argued that "boom and bust" should be avoided. It was to no one's advantage, and affected our exports.

In the course of international discussions, emphasis has been placed by Chancellor Schmidt and others on the need to improve the stability of export earnings, rather than on improving actual prices. Assisting commodity prices would primarily benefit Australia, South Africa and Canada. Helmut has thus emphasized export earnings rather than price stabilization for exports. Many of these proposals would fall primarily within the realm of the IMF--the Trust Fund, improvement in one way or another of the compensatory financing facility, and a variety of other proposals involving new issues of SDR's. There were also proposals which would entail special concessionary terms for the poorer LDC's. There are of course many complex practical issues which have to be resolved in relation to these proposals such as the appropriate method of funding, the extent and feasibility of links with IMF gold sales, etc. The idea of issues of SDR's itself has raised some basic policy questions which will be pursued in other meetings.

In this meeting we should demonstrate the necessary political will about objectives and the urgency of finding practical means of achieving the objectives. We need to concentrate on securing decisions, through the appropriate international organizations, which would produce practical results as quickly as possible. Apart from the Trust Fund, we should concentrate our attention on arrangements to stabilize export earnings as Helmut has suggested. There is already a general consensus that this is the most promising area for action, and one which lends itself to rapid progress in meeting LDC needs. Dr. Kissinger's proposals for a Development Security Fund, proposals now in the IMF, and others of the same general theme show that a great deal of common ground has already been marked out.

I have two additional points. First, there is already an existing arrangement in the IMF on which we can build and improve rapidly. Second, the most pressing problem is to mobilize the required financing. There is some scope within existing IMF resources and also the attractive possibility of using some profits on sales of IMF gold. We should build within the IMF or from it, though there are a variety of options. I believe, and I hope my colleagues will agree, that practical action to implement enlarged arrangement to stabilize developing country export earnings are urgent and our governments should cooperate to secure it.



So far as other organizations are concerned, there are other avenues of approach whose effects will take longer to work through but are of vital importance. We should each do what we can in respect of the fifth replenishment of IDA, an increase in the capital subscriptions of the World Bank and IFC, and contributions to the International Fund for Agricultural Development and to the World Bank's Third Window. There are also US ideas on the table for utilizing private capital, such as an International Investment Trust, which I find attractive, and guarantees for developing countries to borrow in our domestic markets.

Not all of these ideas are uniformly welcomed to all of us. The UK, for example, cannot at present open its capital market to the LDC's to borrow, and we entered a specific reserve on this at the Seventh Special Session. On the other hand, we strongly support the IDA replenishment and we hope others will support it according to their means.

We also hope for progress in the commodity field. We want to end up with better arrangements for world trade in commodities. We in the industrial world want to be seen as doing this, taking a lead in achieving these improved arrangements. What form they would eventually take is not yet clear. We all no doubt prefer a selective approach, commodity by commodity. Each product has its own pattern and characteristics and method of financing. The most appropriate arrangements can only be found through negotiations between the producers and consumers of each commodity. We might not be able to achieve this entirely, and it might be a slow process. I first advocated this myself in 1946.

There might be some merit in a coordinated approach to considering different commodities. At the Kingston meeting in May, I suggested the possibility of a general agreement on commodities, which one could spell with capitals or not, which would embody an accepted set of general principles. This is preferable to the UNCTAD proposals for an integrated approach and one fund for buffer stocks, which is based on the assumption that all commodities should be treated similarly and should be subject to the same kind of control. Nevertheless, I would not oppose further study of the integrated approach and a common fund. Our overriding aim must be to avoid schemes which are inequitable and impractical.

If we can make headway in the discussions of individual commodities, one by one, so much the better. There are signs that some of the developing countries are beginning to see more merit in this approach. The prospects are not too discouraging. But we have to face the fact that the OPEC syndrome is catching on. There are already phosphates-pecs, bauxite-pecs,



banana-pecs and others. A new tin agreement has just been concluded and there has also been a useful negotiation on cocoa. Coffee is under active negotiations, as is a new wheat, or possibly general grains, agreement. Copper is being studied in various forums; it is one commodity which is now no higher in price than it had been before the commodity boom. On tea, we have just launched an initiative within the Commonwealth to consult Commonwealth producers on the prospects for an early agreement, to be pursued under FAO auspices. So we have some reason to be optimistic. We are less optimistic, however, with regard to a new agreement on sugar, when the present one expires at the end of next year, since sugar producers want an agreement starting at the price peak.

We must do what we can in the multilateral trade negotiations in the GATT to help the LDC's, while recognizing that we must be able to create more resources before we can redistribute them. We have to continue in addition to look for ways of getting more help to the poorest within whatever assistance we can provide.

In conclusion, we have won ourselves a breathing space. The initiative on these issues has, at least partially, been transferred to the sort of people sitting around this table. But we cannot rest on what we have achieved so far. The conditions of the developing countries have worsened while the expectations have increased. If any of us were importers of oil and other commodities, and faced droughts and the need to import food at existing prices, we would also feel extremely bitter. Led by OPEC and other "pecs" they will be pressing forward at UNCTAD IV and beforehand in CIEC; the needs of some of them are vitally urgent. There is also a political alliance between the more militant oil producers and other developing countries. And, for the same economic reasons, this is a time when we are least able to help them. In the hope of preserving world consensus, we must make clear our desire to help and to help the poorest most and first. I think that export earnings stabilization offers the most promising avenue, while for everyone the best prospect lies in early world economic recovery.

One last thing. Let me again point out the inordinate proliferation of world bodies dealing with these issues. Whatever the subject, there are at least 15, and sometimes 50, world organizations. I have commissioned a list of them. It is six pages, and excludes all EC organs and commodities. Including them it would be 6-1/2 or 7 pages. I will avoid boring you but will distribute the list which I have prepared. This is an incredible load on officials. They say the same things in different organs. There is also the problem for ministers.



I remember in 1946-47, spending four months preparing the mandate for the FAO. I remember meeting an old crumadgeon in Washington--Sir James Gray. He said that Washington was a town of international beach-combers strolling around trying to form committees or organizations around the pieces of wood which they found. This list really is a challenge to the international community. We really have to study this.

Chancellor Schmidt: We should start in the EC.

Prime Minister Wilson: We are not being good leaders to the world as long as this proliferation continues.

Chancellor Schmidt: I want to get back to the field of energy. In the field of international energy there are two very important decisions to be taken. First is the test case for the capability of industrial democracies to really cooperate regarding critical energy questions. If we cannot live up to this test, we will not be able to achieve cooperation in some other areas. The energy policy field is of particular importance in 1975-76 in achieving economic recovery or failing to do so. If in 1976 there are unilateral political actions by OPEC, all of our recoveries can be expected to be along the lines Harold Wilson has described. I feel that another display of unilateral action in the oil area will emphasize the unpredictability of the situation, quite apart from balance of payments deficits. The result will be reduced world trade. This is a test case of our ability to cooperate together. It is one major decision we must take to overcome recession.

Second, with respect to some of President Ford's points: First, I commend his initiative to further production of energy resources. If it can be achieved, it will reduce the dependence of the West on OPEC. I take his remarks to mean that cooperation in the IEA should be strengthened. I should like to add two concerns of the Federal Republic merely in order to indicate how very great the distortions in the energy market are and their impact on the energy situation. In spite of the fact that oil is so expensive, at present in the FRG there are so many oil products on the market that domestic refinery production in some cases has been discontinued. Because the MNC's abroad have considerable production capacity, they produce far more than they can sell on traditional markets. This surplus production is thrown on the German market. They cannot get rid of their production on other markets. We have had to postpone setting up a national oil company for this reason. I am not saying this so that you will be sorry for us or to get sympathy, but just to state a fact.



This disruption cannot continue. Germany has no raw materials except intelligence, technology, and of course coal. The energy capacity of the world has increased over the last few months. The dumping of foreign products, especially the dumping of cheap heavy fuel oil, has meant that our only domestic energy sources, coal, has been led to bankruptcy. Fifteen years ago, 140 million tons of coal were marketed. This year only 100 million tons of coal will be marketed. At the end of the year we will have a stock of 20 million tons of coal. The result is massive dismissals of workers in the coal industry, and a closing of mines. This is contrary to the development of national energy sources, which is a desirable objective. It is the ridiculous result of lack of coordination in the energy field. I am trying to bring home the consequences of short-sighted policy in the energy field. We started the effort to cooperate in 1973, this led to the results of 1974 in Washington, but we have not yet been able to overcome a certain lack of cooperation even up to this afternoon.

As in the past, governments of the Western industrialized countries have not been able to envisage an overall energy concept. Individual countries have changed concepts and pursued national goals and prestige operations. They also have no common concept. The United States, United Kingdom and Germany as well, are all guilty of this.

I am profoundly concerned by this state of affairs. I have devoted some personal effort in preparation of the dialogue between consumers and producers, but I still do not see possible results. I do not favor an indexing system; the more prices and wages are indexed, the greater the rate of inflation, and this leads to greater difficulties. On the other hand, we shall have to accept it, like it or not. It is better than the producers just fixing prices every six months.

The idea of a floor price, or minimum selling price, is only theoretically sound. Theoretically it is desirable to protect energy resources through an MSP, in order to protect against foreign dumping. In practice it is not very important for the next few years because the world is convinced that prices will be high. And even if the idea is good, it is not very necessary at present. This is not a bargaining device versus OPEC, since when you mention it to them they just smile. If oil becomes so cheap that we need the MSP, then we can agree amongst ourselves to implement an MSP in order to see that revenue to energy producers is high enough.

The real problem is that the OPEC countries are still playing football with us. I really have not heard a sound strategy for preventing this. To be honest, I don't have one either. The other OPEC countries need a couple



of years until they understand that recession, or trends toward lower growth in the world, would harm their expectations and mean that the aspirations of OPEC cannot be achieved. But this will not happen for a few years. Even the United Kingdom will have to reduce its North Sea oil expectations.

The main question is how the big oil producing countries can be gotten away from the idea that they can from time to time adjust oil prices as they see fit without damage to themselves. A second question is how to get the developing countries away from their alliances with OPEC. The developing countries have suffered worse than us. We have flexibility far greater than that of the LDC's. Many of them frequently have to depend on one single crop. We must find a way to break up the unholy alliance between the LDC's and OPEC. But we cannot say so in so many words. We should do this in the CIEC by discussing the balance of payments problems of the LDC's and showing how they are being damaged by this situation. We can make the point that the newly rich countries have to take part in new developmental aid in accordance with their new riches. We will also have to convince the LDC's of our genuine interest in their well-being, by helping them in the area of raw materials.

We must find some way to make OPEC more responsible. We should not, and cannot, use force. We need a conciliatory attitude. We must attempt to convince the world that there will be no earthquake and that violent disruptions and demonstrations in the system will not occur in the near future.

In the future OPEC will be stronger than it is today. But the West has no new proposals to deal with them. If we had some there is no vehicle for proposing them jointly. This is a necessary field for the West to develop an economic strategy. This is why I am not sure we have had the worst of the world recession. OPEC could raise prices by another 10% next July, when the current freeze ends. The FRG can manage with a 30-40% oil price increase, but the world economy cannot. And whatever harm takes place will also include all of us--the US to a lesser extent and Europe to a greater extent.

Prime Minister Miki: Oil is a very serious matter to Japan. 99.7% of the oil used domestically in Japan is imported. Petroleum constitutes 80% of all the energy used in Japan. We do not have the kind of coal that others of you have. In the final analysis, the security of petroleum, conservation of energy use, and the development of alternatives are key questions. In the future, the supply and demand of energy will be tighter. The energy situation is still volatile and will continue to be a most crucial problem for us for a long time to come.



A multilateral understanding and concerted approach will be essential. Cooperation among the consumers and a dialogue with the producers will be two wheels of the vehicle for progress. Prior to the decision that OPEC made last month on price increases, I wrote personally to the heads of OPEC countries to explain Japan's views. The replies of these countries showed great reasonableness. Cooperation between consumers and producers is essential. In this sense, I greatly welcome the CIEC. Energy, development, and commodities will be dealt with in sweeping fashion. We all hope for clarification on the issues of a secure supply of production.

Secretary Kissinger has done lots of good work on the Middle East. I like to think that the problem is being improved step-by-step. I look forward to more good work by Secretary Kissinger.

I have been deeply impressed by President Ford's statement. His statement was highly suggestive and enlightening. With respect to the minimum safeguard price, we have some problems. We hope to further discuss this in the IEA. We have a 9% conservation target on Japan, but our energy situation is quite different from yours.

Unlike your countries, only 30% of Japanese oil is used for consumers, while 70% is used for industrial energy. There is, therefore a limit to what can be conserved with our best effort. We are, however, determined to do everything possible to conserve energy. We have 73 days of petroleum in reserve. Protection of our industries and wise use of our resources for improving human life should be the responsibility of everybody. All of us should do everything we can to conserve on the use of energy.

Ultimately, the energy sources of man will be nuclear fusion. This has reached the level of research and development. I propose not that we can realize the benefits of this today, because it takes a great deal of time. I suggest, however, that we make a long range effort to join forces, or divide the work for wiser research and development, on nuclear fusion so that this major effort can benefit from cooperation among us. I hope that we can reach an international agreement; but short of an agreement, we should give attention to the divisions of labor so that we can develop new energy from this source.

Prime Minister Moro: I have listened with great interest to President Ford. He mentioned certain measures or options on oil prices. Certain recent developments seem to justify a new effort to safeguard stability of the provision of energy resources of the West. Energy demand will



increase, but supply will not, in the short term. OPEC countries will play a very important role. Some members will reduce their own production to ensure OPEC's position of strength vis-a-vis the West. The LDC's who are not oil producers are still faced with a severe balance of payments crisis. The accumulated surplus of OPEC countries increases the uncertainty on financial markets. This situation contributes to the advantage of the already strong developed countries and to the disadvantage of the weaker. This instability is also of concern to our countries, who account for 75% of the oil consumption and financial reserves of the West.

We should aim at greater stability in the energy market by developing more certain projections of consumption curbs. Japan's proposal for cooperation in research and development on fusion is very important and most appropriate. It will help us to plan a better world economy and to reduce the scope for disruption between supply and demand.

Then there is the problem of the transformation of the role, and a reduction of the intervention of, the multilateral corporations. Governments must take up the functions of those MNC's in control of the energy market.

Increased interdependence of the industrialized countries requires us to ensure equal access to energy directly or indirectly controlled by the Western world. We should try to eliminate excessive disparities in the positions of the industrialized Western economies.

We should also try to ensure equal opportunities in the use of recycling mechanisms, either bilaterally or multilaterally, to ensure proper use of currency surpluses, and to permit them to be used to develop new energy resources. Part of this increased financial availability can be used to expand the economy of the LDC's in order to reduce or close the gap between developed countries and developing countries.

President Giscard: With respect to energy, I would like to begin with the problem of conservation. All of us have established very effective programs. Consumption in 1975 was less than our target figure. The question is whether this reduction results from government actions or from the slack in economic activity. Will consumption begin to rise when activity begins to pick up?

We should encourage industries to use technology which requires less energy. It is possible to introduce techniques to conserve less oil. This will not dramatically change the situation. It will only improve it. But the problem will still remain. We need to develop new sources internally. I recognize that there is a certain strategy underway on production and investment in the US.



I don't understand why we have not had more coordination on energy programs. Especially, there should be better nuclear cooperation.

The geographical distribution of oil reserves is not in our favor. Most exportable reserves are in the Middle East. It is useful to change the effect of such disposition in our favor, therefore exploration is extremely useful. That is why we hope that the Western Sea will be fruitful. New production is our only really effective response to the present situation.

The present status of the market in oil strengthens the cartel. As soon as a country becomes a producer it behaves like an OPEC country. These people tell us that we will move away from old trade roles and will have a new oil policy. This is related to the structure of the market. Perhaps the dominance of the multinational corporations in the market strengthens cartelization. What I mean is that supplying countries would normally sell only the oil which comes from their territory. Once the oil gets mixed into a universal cocktail, as the market is concerned, no country has the incentive to sell oil at a cheaper price. At the same time, the multinational corporations do arrange for intelligent distribution, but it is the only way to organize things. We must ask the question whether it would not be better to have a different strategy.

I understand President Ford's arguments rejecting indexation. Indexation does have the disadvantage which you describe, Mr. President. But producing countries calculate the price of oil in dollars. Because of inflation and exchange rate changes oil producer incomes have decreased and some of them cannot pay their bills. Iran, for instance, now finds itself short \$2-3 billion per year below what it had planned for. They now want to up the price of oil to make up the shortfall. I agree that indexation is probably not the best solution, but it would be extremely useful for the industrialized countries to say they were trying to achieve some solution to this OPEC problem. This could be useful in dealing with the indexation pressures. Also, by saying we want more stable exchange rates we could allay some of the fears of the LDC's.

I recall in Secretary Kissinger's speech the statement that we could not accept being subject to the whims of the cartel. But in a way we are lucky, because some of the cartel members are moderate, like Saudi Arabia. And others have good relations with the US, such as Iran. If radicals took over, it could be an intolerable situation. In trying to have a dialogue we should go as far as we can in demonstrating our goodwill. And we should encourage, in turn, our partners to act with goodwill.



In the organization of the energy market we rely very heavily on the private market. Because of the nature of energy distribution and the sources of supply, we need a more organized market. So far the uncertainty of the problem has inhibited progress. We favor more actions to regulate the energy market and to avoid the present absurd situation with respect to energy prices.

Prime Minister Miki: I would like now to deal with energy and primary products at the same time. Japan is the world's largest importer of primary products. The issue of primary products should be neutralized in an efficient way. Through the dialogue with the developing countries and cooperation with them the problems of primary products can be brought closer to solutions. Primary products are the most important problems for the developing countries. Some depend exclusively on them. And development programs have been destabilized as a result of instability in primary product markets. We feel this in Japan. Therefore, in Washington on August 6, during my visit to the US, I addressed myself to the promotion of LDC primary product exports.

A global scheme might be necessary to stabilize the earnings of developing countries from shortfalls in primary product exports. Dr. Kissinger has made an interesting proposal in the UN regarding the development security facility and I agree with the spirit of this. I have a further recommendation with regard to the IMF compensatory finance mechanism. I think we should put emphasis on the most seriously affected countries. Instead of being able to borrow 50% of their quotas we should let them borrow 120%, for the poorest. To stabilize the export proceeds of primary products, special schemes should be worked out.

Chancellor Schmidt: I should like briefly to respond to Valerie's remarks. If we were in the shoes of the oil producers, we would more easily understand that they want to maintain an established rate for their export proceeds because the things they buy and sell, and the success of their development plans depend on exports. And exports are the result of quantity times price. If one goes down, they don't have as much as they need. We may have to accept some form of indexing, but would our bargaining position really be any better as the result? We could someday be in the same situation again.

Another remark of yours, Valerie, could lead us a bit further. That is the question of whether the organization of the oil market should be in the hands of the multinational corporations in the future. I know very well a number of the gentlemen who are chairmen of the board of big corporations, especially the chairman of the US-based oil operations. I do not know about Shell or BP. They are very responsible people on one hand, but they do not really know the future of their operations. They are as helpless as our governments.

They don't know what their future is. They are willing to accept advice, but we have none to give them.

Iran will be an energetic leader of OPEC for the timebeing. They don't like the multinational corporations; they want to deal between governments. This should not mean that we do away with the multinational corporations. We can use them to execute arrangements made between governments.

The draft prepared by the officials of our countries might be a nice Communiqué, but afterwards it would be lost. We cannot leave it as we have done so far to our finance officials and Finance Ministers. We must put something more into it.

President Giscard was right in July when he said that if we used political or military pressures it would eventually fail. But if we only use economic pressure, these countries will not take it seriously. We are facing a structural problem caused by change in the world energy market. There is a danger that this very great structural change could go on. The world has not been able to adjust very well in the last two years. I fear that it will not be able to adjust very much in the future to new disruptions.

Saudi Arabia is closely linked to the United States. It also has a great deal of funds in the city of London. I believe that they understand our problems. I know little of Venezuela, but I know more about Iran. The Iranians are well traveled, and they understand us better than we may believe. However, they are much too ambitious in their plans and above all in the kind of mentality by which they are led.

I am speaking aloud--I have no plan in mind yet. It may be advantageous to bring governments into direct contact with the oil producers in the near future. I don't say we should eliminate the multinational corporations--they are a good mechanism for sharing shortages and good marketers of oil. But they are not serious partners in OPEC capitals. In fact, they are despised. Theoretically, we should have an ordered market for oil as we have ordered market in agriculture, such as in the US and the EC.

I don't agree with the officials of my government on this. They are wrong. They want oil left to the free market, and feel that as a result Germany will get off better than the others. But to leave these decisions to officials somewhere in Africa or some Asian capital is not a good idea.

We could have a structural depression in the future as a result of this energy situation. It is ridiculous to develop our nuclear energy on a nationalistic basis or to deal with these issues purely on a national basis.



I don't believe that the conventional setup will lead to the necessary agreements. It is like hawks fighting in an arena. I asked myself, and this is not a German proposal, I asked myself whether or not we should not appoint one person in each of our countries to coordinate our policies, to understand the relationship between energy, raw materials, finance and monetary issues. If the situation goes on as it has done so far, it will not last longer than Easter. If the US speaks up as it did early this year at Prepcon I, and the EC does, the world will have the impression of disunity. The world should have the impression that we want to cooperate with one another. A strategy for cooperation is needed.

Prime Minister Wilson: The question of more or less power for the oil companies has been discussed. I am not sure we have that choice. The leaders of OPEC are leaders of superstates. They have power that none of us would aspire to. In 1973, during the Yom Kippur War, the Dutch were blacklisted by the Arabs. They tried a total boycott of the Netherlands, sending them no oil. But the companies took their own decisions and acted above the state in the UK. They acted in accordance with their normal role up to a point, but at a place off of what is known as Land's End, in Britain, where the ships wait to get orders, many went not to their original destinations but to Rotterdam despite the oil boycott. The oil companies have very sensitive arrangements, and we should think twice if we think we can control them.

A second point, we need to admit that a lot of things have happened since oil prices have gone up. All of our discussions and all the multitude of international organizations failed to provide any common strategy at all. I don't mean only in the EC, but for oil consumers in general. I do not know what the strategy should be. I certainly don't want confrontation between consumers and producers. I am attracted by David Rockefeller's view that we should try to persuade OPEC to take a long term view. Some oil producing countries have a short term survival rate on oil. Their children may be paupers in two generations. In such cases we should persuade them to produce through helping them build up other types of production.

We should also consider new methods of getting energy such as tar sands and shale oil. However, I warn against in situ production. I hope you can find an in situ process that works. I doubt it, but I hope one can be found in our lifetime. In any case, we should emphasize research and alternative energy resources, and we should protect our alternative sources. Nuclear is expensive, and there are some problems. But it is important. One key problem is disposal of waste. We need more research on this; for instance, I gather that it can be turned into a type of glass. The UK is developing a steam generating light water reactor, like the US. We need to do more in the nuclear area. We were all told the the fast breeder reactor was the answer. We were told that this would not merely conserve but breed. But

not one bit of new uranium has been produced; it has proved to be infertile. It is no more fertile than the pandas which were in the London Zoo for 15 years and didn't touch one another.

Finally, the Group of 77 has asked for four more seats at the Conference on International Economic Cooperation. I find it hard to believe that the country which will in 1980 produce 90% of all oil in Europe should not be represented.

President Ford: I should like to have Henry make an observation or two.

Secretary Kissinger: Thank you, Mr. President. I appreciate this opportunity. A number of the people around this table have expressed solicitude about my condition. They are not used to seeing me silent. It is unfamiliar to them.

I was impressed by the observations and train of thought of Chancellor Schmidt. I agree that we do not have a complete strategy, but I should like to analyze what we have been lacking.

Our strategy has been to transform market conditions for oil. Our basic theme has been conservation and the development of alternatives. Our goal is to reach a point where OPEC loses its unilateral power to control oil prices. This cannot occur before the 1980's, and in the next five years conditions mentioned by the leaders here will obtain.

At the same time, we should not talk about OPEC as a monolith. OPEC sets prices because it has the power to control production. The multinational corporations, as was mentioned, do help it, because it is more difficult to get individual countries to cut prices if the multinational corporations, which are technically equipped and familiar with the market, manage exports for them. OPEC cuts production to achieve set prices. On the other hand, cuts in production are not uniform. This is an opportunity for us. If the West has the strength to absorb the financial surpluses of OPEC, they must export oil in order to import goods. Iran can no longer significantly cut production to sustain oil prices. Iran is tempted to increase oil to keep up exports.

Chancellor Schmidt: Iran has already tried to make separate deals with us to export more oil.

Secretary Kissinger: That is exactly my point. To the extent that separate deals are desired by Iran, if consuming countries are not willing to deal at present prices the prices would weaken. Algeria, Iran and Iraq cannot afford to cut production. Only one country can cut production--Saudi Arabia.

Chancellor Schmidt: Also maybe Libya, Kuwait and the United Arab Emirates

Secretary Kissinger: I agree. What this amounts to is that OPEC is playing with Persian Gulf chips. Iran provides the intellectual leadership, not the economic leadership. In addition, the countries sustaining oil prices are politically the most vulnerable; they cannot politically or psychologically sustain real confrontation with the West. We should not give them assurances by avoiding confrontation.

The military threats from American officials several months ago resulted from lack of planning and some bureaucratic disputes. But after the initial outburst, and after all our friends had disassociated themselves from us, the oil producing countries came to us to ask what was needed to prevent this course of action from happening. We should attempt to convey the idea that Saudi Arabia cannot underwrite the oil price increases for free without paying an economic and political price. I am confident that if one country's attempt to exert pressure for lower prices is successful with a particular oil producing country, other consumers will jump in and take advantage. The oil prices are being maintained by moderate countries in OPEC--those who are most psychologically dependent on the US. We can do a lot if we are not immediately disassociated by our colleagues. We expect a cry of outrage from the producers. We can take that if we are not disavowed by our friends.

We agree on the need for cooperation with producers. With cooperation we can separate the moderates from the radicals within OPEC, the LDC's from the OPEC countries, and prevent a lot of other "pecs." There is now much greater flexibility on commodities in the US government than in the past. The President only two weeks ago overruled some agencies unwilling to go ahead with certain commodity negotiations.

Our strategy is to link these energy discussions with commodities. We should try to break what the Chancellor correctly called the unholy alliance between the LDC's and OPEC. This can happen, and we can achieve our results, if they know that their disruptive actions could stop discussions on commodities or that they will pay a price in terms of cooperation, or military exports. In this way we can combat our dependence with a coherent strategy.

It is highly probable that within the next year or two some industrialized OPEC countries will approach some of us for bilateral oil deals. Saudi Arabia is about 6 million barrels per day below capacity. Others are at the top of their production. It would be suicidal to enter a dialogue without cohesion among the oil importers. We should not be deceived into thinking that cooperation among us is confrontational vis-a-vis OPEC. We can, in this way, hold our ground if we are confronted. Consumer countries should work out a common strategy between now and 1980, for the next five years.



President Giscard: I found Henry's analysis on energy to be very interesting. His analysis of market strategy is right. It is in our interest to have a technical situation in which the OPEC countries sell large quantities of oil.

On the issue of confrontation, however, we should be careful. Confrontation strengthens the hands of the radicals at the expense of the moderates. In an international climate of confrontation it is important for the moderates to disassociate themselves from the radicals.

If the US wants to create special tensions, we could be apprised of the results. But a joint confrontational stand places the moderates in a difficult situation. And, if Secretary Kissinger's strategy is right, there will be some elements in our economy who will not be benefitted by a drop in oil prices. Some of our energy sources have aligned their prices with the oil market, for example natural gas. Therefore, national production is aligned with high oil prices. This level is a sort of floor beyond which OPEC prices will not fall.

With respect to energy strategy, European strategy depends on coordination among the Nine. I hope we will engage ourselves in a homogenous strategy. Then the nine states can coordinate with the US and Japan. We could agree that if countries try to make bilateral deals with us, we should consult. We could agree to consult before exploring the matter to see how to make their response accord with common strategy.

Chancellor Schmidt: I feel there is no basic disagreement between Secretary Kissinger and President Giscard. I still feel that the reality of coordination among the six countries here differs from a partial strategy. I urge that President Giscard's last intervention be taken up, that a country will inform us mutually when offered special deals. I also urge that we do the same when we make special deals with respect to the delivery of industrial products, especially preferential deals. This partial strategy can work with a measure of solidarity at the bargaining table and cohesion here to facilitate its success. The will for solidarity of action has not fully emerged. We can talk about this further.

However, in less than one year everyone may be trying to rescue their own skins. This is a critical problem. Giscard was right last summer--this is an issue of grave political weight for the oil importers. Both the US and the UK will continue to be net consumers. If our countries run in different directions they will create a crisis in the industrialized West. Our destiny will lie in the hands of a few OPEC leaders rather than in our hands. After some recovery, we may be in a deep mess unless solidarity can be practiced.



Prime Minister Miki: We need solidarity among the consumers to avoid confrontation. But we will not solve the problems of the consuming countries without dealing with the producers. The producer nations want industrialization, and they need aid from the industrialized countries. The Fourth World and OPEC might be divided. The non-oil producing LDC's take a dim view of OPEC. The producers do not like to see great divisions between them and the LDC's. The consuming countries should continue to engage in a dialogue with the oil producers. In this way OPEC can become more rational and logical in its orientation. We should not give up hope.

President Giscard: We need an upturn or we risk competition with one another instead of a coherent energy strategy. We must show the developing countries that we are aware of their problems. We must also adopt strategies which do not make these countries indifferent to energy price increases. We should try to isolate to some extent the oil exporters, while showing them that we are aware of their problems. But attacks can strengthen the solidarity of the LDC's.

Without being sentimental, we must recognize that the developing country problems are difficult. And their economies are important parts of world economic equilibrium. We must not allow them to join together with OPEC in a bloc, and not make them indifferent to the world price of oil. For instance, we should be careful about expanding the IMF facilities so much that the LDC's think that whenever there is an increase in the price of oil the IMF will bail them out.

In any case, an increase in aid, given the situation with respect to our national budgets, is extremely difficult. We ought to find better ways of directing our bilateral aid. By using monetary assistance we create a lasting world inflationary situation. This will push the credit situation to a state of permanent tension. Certain commodity arrangements might be helpful, and we can find things that can be done in this area. We can set up reasonable and effective arrangements in commodities. Copper and tin, for instance, can be stockpiled, and cannot be manipulated by certain countries. We should also give thought to the stabilization of LDC exports. Such a system would contribute to the stability of the world economy. We should show awareness of the importance of continuous improvement in the lot of the LDC's.

Prime Minister Wilson: The effects of the world oil and commodity situations have divided the LDC's. Some have been able to compensate themselves for oil price increases. Many LDC's pay, as the result of the increases, a great deal more for machinery and feed grains. A fourth group is starving because of drought or floods. Bangladesh has suffered as a result of first a drought, and then floods.



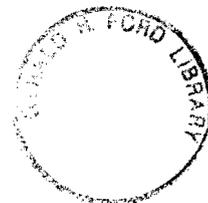
I agree in a strategy of parallelism between oil and commodities. We have our own situation, and our problem with respect to oil. But some countries have a more important set of problems relating to commodities. None of us gains from periods of boom and bust. Booms are harmful to prices in our various countries; in the UK we almost needed sugar rationing last year because of the shortages. We therefore have no interest in price booms. But neither are busts in prices useful to us because they lead to underproduction.

I agree with President Giscard about budgetary aid. This is a matter of great political sensitivity. We have increased budgetary aid for the developing countries. We should continue this at a time when many of them suffer from major problems. Budgetary aid rather than financial assistance is the answer to this.

Chancellor Schmidt: The developing countries are going to have a \$35 billion balance of payments deficit. They have almost reached their capacity of borrowing--that is the LDC's other than OPEC. We have to help them. We ought to say in our statement something about their enormous deficits and point out our dialogue strategy. Our objective should be to sever them from OPEC. We should also help them in order to aid recovery from world recession, and we should do it for moral reasons.

I am not convinced that the UK and France speak for all of us when they say we should speak up for development aid. It is not the most important thing that we strengthen the arguments for classic development aid. It is more important that we educate the developing countries to understand, think, and operate in market economy terms. We should make them understand that in the long run they can't spend more than they earn. We should help them to earn more rather than get more and more aid. And helping them to earn more will in part be dependent on the growth of the industrial countries.

How can we help them earn more money? One way is the SDR-aid link. As much as I have always been opposed to creating SDR's, since I believe there is enough world liquidity already, and as much as I have opposed the SDR-aid link which gives a greater percentage of SDR's to the LDC's, we could now think of this as one way to create new reserves. We could grant SDR's only for the developing countries. We would all declare that we wanted to be left out, thus giving the new SDR's only to the developing nations.



My main point is that we should do something analogous to the Lomé agreement. This is a good idea which could be refined and extended to other countries. It could be a global system under which a number of LDC's are given benefits. In this way the export earnings of a certain number of commodities could be stabilized. We would need funds for shortfall payments to the developing countries. If they earned more in the next period, they should pay it back. If they can't pay on time, they need to pay interest. There could be a lower interest rate to countries which can afford it less. If this were made part of the IMF we could use some other resources to subsidize the interest which developing countries would pay. This would be more than the Lomé model. It could be done with all industrialized countries on one side and all the developing countries on the other. It would take into account total raw materials exports. And this could be in the upcoming dialogue.

All of us have a deep interest in free trade in the world, which we discussed this morning before lunch. I want to stress this particularly--that we should make it clear that we are not giving up the market economy for something else. In general, we should stress the free market apparatus. We should keep as much of the system as can be maintained. I am opposed to any international dirigism. There may have to be exceptions on oil, but those who depend on the world market should use the dialogue to indicate that we are not giving up the market, which is essential to our survival.

Prime Minister Wilson: Some of the developing countries are becoming more assertive with respect to their raw materials. The bauxite producers have imposed an export tax. Also some developing countries are refusing to export raw materials. The bauxite producers want to have their own alumina plant. Iron exporters want to process iron into pigiron.

If we stabilize prices, we are helping the wrong people. We need a change in our aid philosophy. Instead of helping the raw material exporters who can achieve big successes, we should say that aid should be primarily used to help countries get off the ground. This is the reason for giving emphasis in our aid to rural development.

The proponents of the new International Economic Order which Chancellor Schmidt criticizes, have supported many commodity initiatives. They also say the IMF and the World Bank should be democratically controlled. When created, these institutions had stockholder control; now the consumers want greater control than those who put up the money. They spend the money, others can contribute it. At Jamaica we succeeded in reducing support for this concept.



Prime Minister Moro: Consumer/producer arrangements are important, or even necessary, to achieve stability of industrialized country supplies and to contribute to development in the less developed countries. We should try to find effective solutions to the raw material problem and avoid price disruptions. We should not try to stabilize prices. That could lead to consumption modifications. The position of the raw material producers is not as strong as OPEC. We should seek stabilization of the commodities market, and protection against too great fluctuations in raw materials. In the 7th Special Session there was a suggestion to create stocks to stabilize prices. We need to achieve a certain international balance between us and the developing countries.

President Giscard: I have three comments:

- For India, Bangladesh, and Pakistan, there are not many solutions.
- In talking about the transfer of public real resources we need to reaffirm the need for emphasis on health and agriculture.
- The Lome agreement has not yet led to the spending of a single dollar, pound or franc. For the time being it has not yet been applied. We should follow how the mechanism operates before we extend it. Lome will not prevent cartels. But if we have commodity arrangements, the LDC's will become accustomed to talking prices with the producers and may avoid, as a result, unilateral price setting.

With respect to the final document, I believe we should draft the text in the form of a declaration. Some others think the draft should be done along the lines of a press release. Do we favor a declaration or press release, or both?

Prime Minister Miki: The current draft contains some specific economic formulations. The Foreign Ministers are working on a detailed document. It can be used for the press. Perhaps we might have a separate declaration, of the type we have prepared, of a more political nature.

Prime Minister Wilson: Such a declaration would not be suitable for everyone. The Japanese statement is a sort of Communique. I do not think this would do the trick.

President Ford: I support Prime Minister Wilson. Much work has already been done on the Carlton draft, and I think we should stick with it.



President Giscard: We have been proceeding on the basis of the Carlton group paper. We should add to the document wording reflecting our discussion today on energy, raw materials and development. The Finance Ministers have already been drafting wording on the economic situation, trade and monetary issues. The Foreign Ministers should do a text on what we have done this afternoon.

Foreign Minister Sauvagnargues: We must recognize that we cannot speak in behalf of the European Community on subjects which are in the competence of the European Community. On the subject of energy and raw materials we are working under an EC mandate. We have said things here which go further than we have gone in EC forums. The draft of the Carlton group is general enough on one hand not to disrupt our strategy and on the other hand not to hurt with respect to EC discussions.

Prime Minister Wilson: I have more confidence in the Foreign Ministers than M. Sauvagnargues.

President Giscard: During the discussions there is a difference between what we have said and what we have agreed on. We go along with the conclusions. The question now is what will be said. The fact that we don't publish it doesn't mean we haven't agreed.

Could the Foreign Ministers meet tomorrow at 9:00 and the Heads of State at 10:00. The Foreign Ministers will join us at 11:00.

Prime Minister Miki: I hope that you will put the spirit of our declaration into the Communique if you publish only one document.

President Giscard: Yes, the Foreign Ministers will try to do this. They will try to include as much of the Japanese document as they can.



Economic Summit, Fourth Session  
Monday, November 17, 1975 10:00 a.m.

Prime Minister Moro: I should like to discuss economic and social relations between the East and West, particularly relations between Western Europe and Eastern Europe. To counterbalance the influence of the Soviet Union in Eastern Europe, it is necessary to emphasize that we are attractive partners for Eastern Europe in East-West economic relations. Communist countries take 5% of the overall exports of the industrial countries. The amount varies from one to another--7-8% for some, 2% for North America. In 1974 industrialized countries' exports to the Socialist countries amounted to \$27 billion, and their imports were \$23.4 billion. For the Socialist countries trade with the West varies in importance. Many are dependent on us for imports of machinery. The Soviet Union imports 5% of its GNP. We in the West import maybe 2.5% of our GNP from the Soviet Union.

Thus, East-West trade, for us, is not particularly important. The amount is not very high when compared to world trade, but is qualitatively important. First, economic relations between the East and the West are important factors in world stability, and are closely related to detente between East and West. Thus it contributes to improving relations. And it helps to improve the standard of living in both of our economic systems over the long run.

In the development of economic relations between the East and West, trade has been stepped up in the past few years. But the East has had a deficit since 1972. The result is that the relations between imports and exports with COMECON have worsened. The East has experienced a structural balance of payments deficit. The reasons for this trend have varied. The Eastern nations need plants and technology from the West. But the intensive economic development of the Socialist countries has not yet enabled them to produce goods of a quality satisfactory to the West. The recession in the West has also led to an imbalance in trade. But the increase in the deficit is worse with the smaller Eastern Europe countries. The Soviets and China have exploited the oil price increase and their markets in East Europe in order to increase wheat and cereal imports from the West.

The traditional East-West framework has not significantly changed. It should be emphasized that there has been an increase in percentage of exports of manufactured goods sold to the Socialist nations. Exports of these products were \$2 billion in 1972, \$3 billion in 1973, and \$4 billion in 1974. Half of the deficits concerned China.

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Western exports credits have been extended to allow Eastern countries to strengthen their industrial production: but these countries cannot not produce enough to pay off these loans with exports. However, the structure of planned economies makes it easier for them to call on credits from the West. The Soviet Union has been the main beneficiary--with \$57 billion of credit outstanding at the end of 1975. The credit enables the Soviets to provide financial aid to COMECON countries which have deficits with the Soviet Union. The West has also lent money to COMECON, which has an outstanding debt of \$7.7 billion in 1973 and \$9.7 billion in 1974. There also is a trend toward the development of bank credit to East Europe countries, but the banks have been cautious.

The rules in the West to safeguard freedom of trade and to eliminate discrimination are difficult to apply in relations between the West and the East. Poland and Rumania are interested in commercial advantage, not simply political. Some of these countries are not able to guarantee strict adherence to the GATT. Nonetheless there have been some results through closer trade relations with the East. A gradual expansion of trade has taken place. The possibility has also arisen of the Soviet Union and China becoming associated with the GATT on specific problems. Rumania is already in the IMF, but certain advantages of membership might lead others to apply. However, we must also recognize that the bilateralism of East Europe is not consistent with the rules of the Fund.

It is important that East-West relations should be seen in the framework of international economic relations--including North-South relations--because of their interrelationships. The \$30 billion balance of payments deficit of the non-oil producing developing countries for 1976 is a threat to world economic recovery. This might lead an important part of mankind toward misery and hunger. The volume of credit to the Socialist countries, under these conditions, is not justified. These countries present themselves as privileged partners. The Soviet Union contributes only about \$5 billion to development in the Third World, and this is mostly to Socialist countries. It is time to increase the Socialist program of aid to developing countries, particularly in multilateral institutions. They should help solve the balance of payments deficit problem for the developing countries, and also participate in price stabilization and currency facilities.

We should control and monitor the trend of credits to the Eastern countries. They should not be allowed to receive sales conditions detrimental to Western markets. We should assess the implications of industrial production arrangements which are not determined by market forces and practice and which call for payment in goods in return for capital investment. We must also pay attention to differences in interest rates and the duration of credits to the East. The recourse of the East to bank credit



could support trade. The Western countries should harmonize their credit policies with respect to the East. There should be a minimum interest rate to be reviewed periodically and understandings on the maximum duration of credit. We should commit ourselves not to delay further in reaching agreement in these issues.

With respect to trade in primary commodities, we have to recognize that raw material shortages are harmful to Western economies. To the extent that we help Eastern countries to exploit their resources, the West gets more raw materials. We should, in addition, coordinate on our raw materials deals.

The rules of the West are sometimes difficult to apply in East-West economic relations. The Eastern European nations operate between planned and market economies. This leads to asymmetrical behavior, which in turn leads to conditions of weakness in industrialized countries. It is easy for the Eastern countries to compete with the West on credit facilities. Today and in the future there will be certain export opportunities for us thanks to a common effort of coordination. We should avoid extending excessive credit facilities to the Eastern European countries, and we need better coordination among ourselves in a number of areas, for example, on large resource enterprises, on common policies to force an opening up of Eastern markets with respect to consumer goods, on trade of industrial products on a stable basis, and on avoidance for dumping. The European Community, Japan and the United States should engage in intensive coordination.

President Ford: I welcome the inclusion of East-West economic relations in our agenda for this meeting. It is our belief that the development of strong economic ties with the countries of Eastern Europe, the Soviet Union and the People's Republic of China represents an essential element in our overall policy. Close economic ties and increased trade enhance our ability to foster restraint and cooperation in the behavior of the communist countries.

I need hardly tell you that today East-West trade represents a multi-million dollar exchange of goods and services between more than a dozen industrialized nations and close to a dozen communist countries. The growth of such trade has been striking. Twelve years ago, in 1963, the level of such trade was only about \$7 billion. At the end of last year, however, the volume of East-West trade had increased to well over \$40 billion, with prospects for continued rapid growth.



For many years, the role of the United States in East-West trade was negligible. This is no longer the case. The United States has a direct interest in improving our economic relations with the communist countries, and in increasing the level of our trade with them. The level of our East-West trade has been relatively small, in comparison with the trade of most of your countries, and last year amounted to only a little over \$3 billion. By 1980, however, we anticipate that under normalized trading conditions the volume of our trade with the communist countries will rise to more than \$11 billion. Clearly, the role of the United States in East-West trade is a subject not only of national importance, but one of importance and interest to all of you.

My country intends to continue the strengthening of detente through improved economic relations and increased trade with the communist countries. I am sure you are aware that the Trade Act of 1974 contains amendments which restrict the normalization of our trade with these countries by linking the extension of Most-Favored-Nation tariff treatment and the availability of government export credits to improved emigration practices. We are seeking to modify these restrictions, which have proved to be harmful to our own national interest and have not achieved the benefit for which they were intended.

In concluding a long term grain sale agreement with the Soviet Union, we have taken a step which we believe to be economically beneficial, and one which reinforces our overall relationship. We believe this agreement will stabilize the Soviet Union's erratic grain purchases, which in recent years have sent grain and food prices soaring. Most importantly, this agreement should help to dampen undesirable price fluctuations to the benefit of all buyers of US grains.

I would like to emphasize that with respect to our commitment to the USSR, we are free to reduce exports if our own grain supply in any given year falls below 225 million metric tons. At that level or above, we are confident that the United States can meet the needs of its traditional customers.

I would like to add that with regard to our proposal for an international system of grain reserves, our agreement with the Soviet Union is designed to meet only average Soviet demands. It does not provide the Soviets with any assurances on meeting their peak demand, such as occurred this year and in 1972. Such assurance is obtainable only through the international coordination of grain reserves, which would include Soviet participation, as we have proposed.



You are aware that parallel to the conclusion of our grain agreement with the Soviet Union we have been conducting negotiations with the USSR on the purchase and shipment of oil. I want to assure you that any agreement we may reach with the Soviets on oil will in no way threaten the cooperation on energy matters now established among the developed consuming nations. In fact, we anticipate that the Soviet supply will represent a net addition to the petroleum resources of the West.

We are all aware that increased East-West trade must rely heavily on credits extended to the communist countries to finance their imports from the industrialized Western world. We do not believe, however, that it is economically wise, nor in the general interest, for us to compete among ourselves in providing low cost credits to the communist countries. We believe that it is preferable for us to harmonize the credits extended to these countries, and to set rates which are more reflective of the market. An important first step in this direction can be taken by concluding the Gentlemen's Agreement, on meaningful terms.

I know you agree with me that in the area of East-West economic relations, as in the other areas that we are considering at this important meeting, we must work closely together to ensure that our policies are consistent and in the mutual interest of all concerned. We stand ready to consult closely with you in the conduct of our economic and trade relations with the communist countries. We hope that you will be ready to join with us in such consultations. By working closely together in this area, I am convinced that we can continue the fruitful development of East-West economic relations, which play an essential role in further progress toward detente.

Chancellor Schmidt: I support the Gentlemen's Agreement on export credits and I hope reservations can be overcome. Others take it for granted that there will be an understanding on this.

Prime Minister Wilson: I agree with the lines of Prime Minister Moro, President Ford and Chancellor Schmidt with respect to the Gentlemen's Agreement.

President Giscard: With respect to the harmonization of credit facilities, I should like us to bear in mind two factors. One, we already have existing agreements, and we cannot modify these. The only steps we can take concern new agreements. Two, there are the issues of the duration, rate and certain elements of the repayments arrangements. Harmonization must concern all elements. For the time being, there is no harmonization on duration or repayments. We favor negotiations, but we cannot agree unless the negotiations cover all elements of credit arrangements.



Prime Minister Wilson: Our main problem is that we do not know the terms provided by others. The USSR frequently plays countries off against one another. They try to talk interest rates down. They say someone else is offering a better deal. If you don't believe them and you reject their offer, and they happen to be telling the truth, you don't get the deal. If they lie, and you go along with them, then you get involved in a process of undercutting. It is useful to know what the others are doing. Romania plays this game too.

President Ford: There seems to be a high degree of unanimity on the need for a Gentlemen's Agreement. We strongly favor it. If we don't put it in the Communique we lose the impact of what we are seeking to accomplish. If we put it in, we tell the Soviets that the industrialized countries in the future intend to do something about it. They should know of the unanimity at this meeting. It would lose impact if we leave it out.

Chancellor Schmidt: I agree with President Ford. In these arrangements the old deals would not be submitted. So, Valery, one of your points is easily covered. This paragraph is in the Carlton group draft--paragraph 12.

President Ford: All we need is a two line sentence that we will intensify efforts to achieve prompt conclusions of negotiations now underway to reach a Gentlemen's Agreement on export credits.

Chancellor Schmidt: I agree. We need a conclusion of the negotiations now underway concerning export credits, deleting the word "Gentlemen's Agreement."

President Giscard: Yes, I suggest we add this statement by Chancellor Schmidt. What shall we call this document? The Declaration of Rambouillet, or how about the Rambouillet Declaration?

President Ford: I understand there are two matters which are still problems

Minister Fourcade: Yes, there are two sentences which are problems. They are in brackets. The first is a detailed discussion of what we should achieve in trade negotiations. Some ministers felt it was not a good idea to go into such detail and that this did not add much to acceleration of the Tokyo Round. The second sentence was a Japanese proposal designed to achieve maximum possible level of total liberalization.



Chancellor Schmidt: Seems to me that both sentences are valid. We should express both themes. I move we suppress the brackets and sustain both sentences. If we include them, it will give an affirmative message. It will give people the impression that we are interested in substance rather than just words.

President Giscard: All we can say is that we want to accelerate the negotiations, not take a different stance. Might I remind Chancellor Schmidt that this is a Community issue. All we can do is to reiterate what we have decided.

Chancellor Schmidt: Surely we can say something about specifics, and that is not inconsistent with our mandate. We have agreed to the Tokyo Declaration, after all.

President Giscard: Why don't we put at the end of the sentence on specifics items the phrase "in accordance with the mandate agreed to in Tokyo."

Secretary Callaghan: Why don't we put this at the front of the sentence so that it reads "in accordance with the Tokyo Declaration..."

Prime Minister Moro: We welcome rapprochement of the US in France in respect to monetary problems. Minister Fourcade has given information to his colleagues on this. It appears that as regards the arrangements for consultations relating to this issue, there is supposed to be daily consultation among central bankers of the Five, with consultations on a weekly basis by Ministers or their representatives. We would like these consultations to be expanded to Italy: from a political point of view this would be helpful.

President Giscard: We understand the problem of Italy. With the agreement of the US delegation we could replace the number of Five by the phrase "central banks concerned" or "number concerned," and this will be decided in January.

Prime Minister Moro: Couldn't we just say the "ministers concerned" or "central bankers concerned." In any case this probably will not be published.

Minister Miyazawa: I suggest in the section on monetary issues we delete the brackets around the words "and other appropriate fora."

Chancellor Schmidt: I agree with Mr. Miyazawa.

President Giscard: There also seems to be a problem with paragraph 15 on energy.



President Ford: The US strongly believes that paragraph 15 reflects what we discussed yesterday, and should be included. It is an integral part of yesterday's discussion, indicating that our cooperation is essential. I recommend deletion of the brackets in the third sentence of this paragraph.

President Giscard: If we were asked we would have to spell out that this does not mean the IEA.

Prime Minister Wilson: This indicates that we would continue to cooperate closely, it implies no change.

President Giscard: We should also provide some cooperation with LDC's.

Chancellor Schmidt: That is not in paragraph 15.

President Giscard: But that is a broader dialogue and not only referring to energy.

Secretary Kissinger: We are talking about continuing to cooperate closely. We can make a modification to meet this need.

President Giscard: Okay. We can accept that.

Time is short. Lunch is in five minutes. Then we will have a press conference and then go 200 yards on foot to the city hall. There we will have short statements by each of us. Then we will come back.

President Ford: I should like to thank President Giscard d'Estaing for his hospitality. I am sure we are all most appreciative.

