The original documents are located in Box C31, folder "Presidential Handwriting, 11/17/1975" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

November 17, 1975

THE PRESIDENT HAS SEEN....

PRESIDENTIAL STATEMENT TO THE PRESS - RAMBOUILLET

I WISH TO EXPRESS MY APPRECIATION FOR THE GRACIOUS HOSPITALITY OF PRESIDENT GISCARD D'ESTAING AND THE FRENCH GOVERNMENT.

MY APPRECIATION ALSO GOES TO MY COLLEAGUES FOR THE SPIRIT OF GOOD WILL AND FRIENDSHIP WHICH THEY HAVE DEMONSTRATED DURING THIS MEETING. IT HAS BEEN A SUCCESSFUL MEETING IN ALL RESPECTS.

IN OUR SESSIONS, WE HAVE COVERED THE RANGE OF ECONOMIC ISSUES OF CONCERN TO THE INDUSTRIALIZED WORLD AND CHALLENGING OUR DEMOCRATIC SOCIETIES. THESE MEETINGS HAVE BEEN REWARDING IN THESE IMPORTANT WAY~~S~~: THEY HAVE DEEPENED OUR UNDERSTANDING AND APPRECIATION OF OUR MUTUAL ECONOMIC INTERDEPENDENCE: THEY HAVE ENABLED US TO HARMONIZE OUR VIEWS ON KEY ISSUES: THEY HAVE STRENGTHENED OUR DETERMINATION TO SOLVE THE PROBLEMS WE CONFRONT; AND, FINALLY AND MOST IMPORTANTLY, THEY REAFFIRMED OUR MUTUAL CONFIDENCE IN A SUSTAINED AND FULL RECOVERY FROM THE DEEPEST RECESSION SINCE THE 1930's.

PERHAPS OUR MOST IMPORTANT ACCOMPLISHMENT OVER THE PAST SEVERAL DAYS HAS BEEN OUR RECOGNITION THAT THE OBJECTIVE OF SUSTAINED, STABLE ECONOMIC GROWTH WILL BE FACILITATED BY OUR COMMON EFFORTS. AS LEADERS OF MAJOR DEMOCRATIC NATIONS, WE REACHED SUBSTANTIAL AGREEMENT ON A NUMBER OF ISSUES CONCERNING MONETARY POLICY, TRADE, ENERGY, AND OUR RELATIONS WITH THE DEVELOPING WORLD, ~~AS OUTLINED~~ IN OUR JOINT DECLARATION.

OVER THE PAST 3 DAYS IN THIS BEAUTIFUL SETTING WE HAVE FOUND A NEW "SPIRIT", -- A SPIRIT OF COOPERATION AND CONFIDENCE STEMMING FROM A DEEPER UNDERSTANDING OF OUR COMMON DESTINY, AND ~~OUR~~ our JOINT CONVICTION THAT ~~WE~~ free peoples CAN MASTER ~~OUR~~ their FUTURE.

AS THE RESULT OF THE WORK WE HAVE STARTED, THE PEOPLE OF OUR COUNTRIES CAN LOOK FORWARD TO MORE JOBS, LESS INFLATION, AND A GREATER SENSE OF ECONOMIC SECURITY.

WE CONCLUDE THIS CONFERENCE WITH A SENSE OF DETERMINATION TO CARRY FORWARD THIS WORK WHICH HAS BEEN SO PROMISINGLY BEGUN.

# # # # #

~~SECRET~~

INTERNATIONAL ECONOMIC SUMMIT

Paris, France

November 15-17, 1975

Briefing Papers for

THE PRESIDENT

~~SECRET~~

THE WHITE HOUSE
WASHINGTON

Jim -

This was prepared by Seidman and company --- therefore, no need to return to NSC.

Note the President's handwriting -- and somebody elses --- pages marked

Any action?

Trudy

THE PRESIDENT HAS SEEN...

THE WHITE HOUSE

WASHINGTON

November 12, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: HENRY A. KISSINGER HK WILLIAM E. SIMON WES
BRENT SCOWCROFT BS L. WILLIAM SEIDMAN LWS

SUBJECT: International Economic Summit Overview

The summit is intended to permit an intimate and serious discussion by the leaders of industrialized democracies of common problems; it should convey to the peoples of the industrialized democracies that their leaders are working together with good will and common purpose.

The summit provides you with an opportunity to demonstrate sensitivity to the problems of others and to exercise constructive American leadership, both to resolve current difficulties and to set positive directions for the future evolution of the international economy. Your leadership can help:

-- to focus the meeting on priority problems, ensure that the discussions are oriented toward a long term view of major issues, and identify areas in which increased momentum in ongoing negotiations and more intensive joint efforts can contribute to the benefit of the industrialized countries.

-- to put the meeting in an appropriate political context by stressing that the destinies of the industrial democracies are intertwined on economic issues in much the same way as they are in the sphere of defense and mutual security, and that differences must be subordinated to their paramount interest in their common well being.

Your description of the U.S. recovery and the philosophy underlying your economic program will set an optimistic note at the outset of the conference. In followup remarks you can move the conference toward consensus on objectives in the various subject areas.

How Foreign Leaders View The Summit

The summit will provide the other leaders an opportunity to more fully explain to you, and to each other, their problems and proposals, and to be seen participating in a serious effort to improve the international economy. It will thus help them to build prestige at home, to underline the fact that their domestic economic problems are shared by others and result in part from problems in the international economy, and to strengthen their electoral prospects.

Your foreign counterparts will use the summit to strengthen confidence in their leadership and in the ability of the democracies to master their problems. These leaders will also likely seek an indication that the U. S. is contributing to the solution of their problems. As a consequence, they may tend to focus less on the problems of the international economic system than we would desire and more on the U. S. contribution to their recovery.

The two concerns which, to a large extent, originally motivated Giscard and Schmidt to seek the summit -- a weak dollar and inadequate U.S. recovery -- are no longer compelling. However, the Europeans remain skeptical about the continued strength of the dollar (fearing a decline would again strengthen the competitiveness of U. S. exports vis-a-vis those of Europe) and about the durability of the U.S. recovery (fearing in particular that our restrictive monetary growth may cause it to abort).

The other leaders will approach the summit from a number of perspectives: Giscard is extremely concerned that continued economic problems in France could lead to a Socialist/Communist victory in National Assembly elections likely to be held early in 1977 ultimately weakening the power of the French Presidency to levels of the Fourth Republic. Giscard will articulate his concerns about the impact of present economic problems on the future of France and the democratic world, and focus on developing international remedies to France's economic ills (underlining the fact that these ills are international in origin; i.e., not completely his fault), and to affirm France's political and intellectual leadership of Europe's effort to assure adequate American support for its recovery. His desire to reduce exchange rate volatility, avoid a dollar depreciation weakening European competitiveness, and ensure a strong and sustained U.S. recovery which will continue through the 1978 French elections, will reflect these views.

Schmidt shares Giscard's concern about the corrosive effect of current economic problems on the industrial democracies as well as his eagerness to demonstrate that his nation's slow recovery is not his fault. He too is seriously concerned about the political impact of the current recession, fearing a strong CDU threat in next year's national elections. He is already under strong attack for unprecedented German unemployment and budget deficits. Schmidt can be counted on to point out to the U. S. its responsibilities to help Europe recover, to describe vividly the adverse effect on NATO of weak European recovery, and to underline the need to build confidence in the industrial democracies.

Miki, compromise leader of the LDP and politically weak within his party, will use this meeting to demonstrate his credentials as a world leader. Moreover, as the only Asian country at the meeting, the Japanese will likely consider themselves spokesmen for Asia. Miki hopes to strengthen his position for the likely general elections next year.

Attendance at this meeting symbolically confirms international acceptance of Japan as a major economic power. Miki is unlikely to put forward any major new initiatives, but will seek a reconciliation of differences on trade and monetary issues and a conciliatory approach toward the developing world, which Japan depends heavily upon for energy and other raw materials.

Wilson will use the summit to help build domestic confidence in Britain's future economic recovery, to strengthen his ability to resist union pressures which threaten his recent "voluntary" restraints on wage increases, and to enable him better to fight off strong protectionist pressures from the Labor left. A clear indication that the other major economies are beginning to enjoy solid recovery may buy Wilson more time at home to allow his policies to work. A demonstration that the assembled leaders are determined to fight off protectionism in their countries will strengthen Wilson's ability to hold off such pressures in the U.K. Outside of these issues, Wilson's main concern will be the plight of the LDC's -- which Britain feels a moral obligation to help and which are important suppliers and markets for U.K. exports.

Moro's attendance is, in itself, a victory for Italy, which was not originally on the list of invitees. The Christian Democrats are strengthened by international attention and acceptance. They may, as the result, gain support for domestic policies to hold down inflation and resist protectionism. Moro is unlikely to play a major role at the conference.

Your Participation

You will have the opportunity to comment at least once on each topic. The agenda will be decided upon at the first session. We assume that the topics will be those recommended by the "Informal Group" which included George Shultz -- economic recovery and coordination, trade, monetary issues, developing countries, energy, and East-West relations. It would be preferable from our viewpoint that the agenda follow the above order. Specifically, we want trade (in which we have proposals) to precede monetary issues (where we may face French pressure).

Following Schmidt's initial presentation on economic recovery and coordination, you will have the opportunity to place the summit in a political framework stressing:

-- the central economic, political, and security importance of the industrial democracies to one another;

-- the enormous interdependence among our societies and that the summit should convey to our peoples that we are politically committed to their common well-being;

-- that individual efforts to solve our problems can only have lasting success if supported by the contributions of all;

-- that our problems must be resolved through political will and a spirit of compromise, and that differences should be considered in light of our broader common interests.

Recovery from the recession is stronger and more advanced in the United States than the other nations participating in the conference. This may occasion efforts by the other countries to seek further stimulus to the U.S. economy on the assumption that this will provide the basis for export-led recoveries of their own economies. Rather than defensively arguing that their overall economic prosperity is less dependent on additional U.S. stimulus than they believe, the summit provides an opportunity to explain the philosophy underlying your policies for a sustained recovery and economic growth without inflation. The central elements of your economic program focus attention on a dynamic growth in the private sector as the basis for a sound economy. Specifically, your discussion of our economic policy should stress:

- o Increased job formation through incentives for capital investment, e.g. your tax proposals for reductions in corporate taxation are designed to stimulate capital formation. (Significantly, the U.K. has recently announced a series of measures, philosophically at variance with its traditional reliance on the public sector, which are similar to our emphasis on tax incentives for private investment.)

- o Fiscal restraint by government to control excessive deficits and the growth of government expenditures. (Your $28 billion tax reduction and spending restraint program recognizes the need to reverse the pattern of the explosive growth of government expenditures and the need for greater reliance on the private sector.

- o Emphasis on steady policies, long-term objectives, and avoiding short-term "stop-go" economic policies which have occurred in virtually all of the Western democracies. (Moderating expectations and reducing policy fluctuations provides greater certainty for individuals and businesses in their planning and can contribute significantly to a restoration of confidence.)

- o Reforming government regulation to remove obsolete and unnecessary restrictions on private enterprise and to enhance productivity, essential to sustained economic growth.

You will also have the opportunity to discuss the strength of the U.S. recovery and an optimistic projection for future growth. Taking such an initiative at the outset would prevent our being placed on the defensive by repeated questions about our prospects and the adequacy of your policies.

Beyond this, you can briefly describe the necessity of progress in areas of longer-term significance -- energy, trade, monetary policy and improved relations with the developing world. In effect, this presentation can lay out an entire framework for the meeting, elevating the focus to broad issues of cooperation aimed at recovery, sustained growth and improvement of the international economic system.

Individual Issues

Trade

Miki will lead off probably by (a) emphasizing the need for strong support for the multilateral trade negotiations (MTN) and (b) expressing concern over growing protectionism in the U. S. and Europe, and seeking reaffirmation of the OECD trade pledge to avoid new protectionist measures.

The Europeans are likely to be even stronger in expressing concerns about a possible resurgence of U.S. protectionism. Although somewhat mollified by Treasury's recent rejection of a countervailing duty complaint on steel and our planned use of the waiver on canned hams, the Europeans may cite as evidence a barrage of petitions on dumping and countervailing duties. They may question whether serious progress in the multilateral trade negotiations will be possible before our Presidential elections. Most will also cite high levels of unemployment in their countries as a reason for avoiding new commitments to trade barrier reductions in the near future.

Trade is an area in which U.S. leadership can be extremely effective in giving direction and impetus. Your suggestions for ambitious tariff cuts, priority objectives and a tight completion deadline for the MTN (contained in your draft statement) could stimulate agreements among the participants to reinvigorate the negotiations and give them better focus. (The Europeans might, however, be reluctant to make specific commitments on the grounds that trade policy in Europe is made in an EC rather than a national context. France may also cite lack of progress toward a more stable monetary system as a reason why trade matters should not be seriously discussed at this time.)

A strong U.S. reaffirmation of the OECD trade pledge to avoid new protectionism, along with an equally strong reaffirmation of our continued commitment to a more open trading order and to flexible use of our discretionary authority under the Trade Act (also in your statement), could lead to agreement by participants to continue to adhere to the trade pledge and avoid new protectionist measures. This would strengthen the hand of the other leaders (particularly Wilson) in resisting protectionist forces, and would make it easier for you to justify flexible use of discretionary authority on the grounds of a common effort by all the industrialized countries to resist protectionism. It would also strengthen our position in protesting unfair trade practices of others.

Monetary Issues

Giscard will likely press for more stable exchange rates on the grounds that instability adversely affects trade and investment, and disrupts domestic economies. He will argue that volatility undermines confidence and disrupts European economies, for whom trade accounts for a higher percentage of GNP than for the U.S. (Behind this desire for "stability" is a desire for an overvalued dollar, and an undervalued franc, to strengthen the international competitiveness of French (and European) goods vis-a-vis American goods.) Schmidt (whose country would also benefit from improved export competitiveness) may support Giscard's proposals: the U.S., Italy and Japan desire flexibility and will not support Giscard, although their leaders are unlikely to express strong feelings.

We should try to avoid a prolonged discussion of monetary issues, staying away from both technicalities and theology. The other participants except for France and, perhaps, Germany probably share this interest. The discussion will give you an opportunity to clarify our opposition to returning to a par value system, to maintenance of "zones" or "bands" around exchange rates, or to agreed restraints on exchange rate movements. We should assert our desire to ensure that resolution of exchange rate issues is consistent with successful management of domestic economies and permits each country to choose the exchange rate regime which permits it best to achieve its domestic economic goals while meeting its international responsibilities. The best we can hope for is a narrowing of differences and agreement to cooperate on exchange rate intervention to maintain orderly currency markets and to explore whether there are actions which can be taken to achieve greater exchange stability under current conditions. If the discussion becomes either ideological or technical, you can seek agreement to remand the problem to the Finance Ministers and their Deputies.

Energy

In leading off the discussion on energy, you might portray higher oil prices as a key domestic and international problem and the essential difference between the present recession and those of the past 30 years. To avoid disruption resulting from future arbitrary price increases or supply cutoffs, consumers must reduce their dependece on OPEC oil. The other participants will be especially interested in the status of our domestic energy legislation, and the strength of your commitment with respect to decontrol of oil prices. There is some skepticism abroad regarding whether the U.S. will implement the tough energy measures that you have been advocating. You will want to assure the others that you are committed to, and that the U.S. is developing an effective energy program that will significantly reduce our oil imports.

You will want to state the degree of your commitment to the minimum safeguard price (MSP) and other elements in the IEA long-term program; you will want to state what type of access to U.S. energy supplies we will provide. The Japanese, especially, resist the MSP (for which they do not believe they can get Diet approval) but would like more secure access to U.S. energy. The French are not members of the IEA and resist any action therein because they believe that it relegates the EC to a secondary role in the energy area. Britain will be particularly sensitive about access to its energy resources. You may want to stress our conviction that cooperation among the consuming countries will reinforce our individual energy programs and ensure that our combined effort will achieve our objective of reduced vulnerability to foreign supply disruptions and arbitrary price increases.

You might also stress that all summit participants, including France, have an interest in cooperating to develop a common strategy and set of objectives for energy in the forthcoming dialogue.

Developing Countries

Wilson will likely focus on commodities (perhaps proposing a new international organization to deal with them) and the LDC payments problems (perhaps suggesting a new creation of special drawing rights in the IMF or a large debt moratorium). Our approach should underline the secure maximum support for our key proposals at the UN, stressing especially the Development Security Facility in the IMF (to provide LDC's loans to offset declines in exports) and our case-by-case approach to commodities. You could indicate our continued commitment to development cooperation, underline our major efforts to improve the dialogue with LDC, and stress the importance of close cooperation among the developed countries in formulating positions for the dialogue.

In this context, you might also stress the need for a firm stand by the industrialized nations against expropriations not compensated or prescribed by international law, pointing out that interference with investment harms the climate for the private investment so vital to future development in the poorer nations.

In response to the above initiatives from others, you might indicate that a new SDR issue for developing countries and a major debt rescheduling would spread the assistance too thinly when the need is really for better capital market access for a few large or middle-income countries and more grant aid for the poorest. A new commodity institution is unnecessary and would merely duplicate UNCTAD.

East-West

Moro's presentation is unlikely to be dramatic. While it is likely that little time will be devoted to this subject, you might stress our continued commitment to consult with our allies in formulating East-West economic policies, that economic relations are part of our efforts to strengthen political relations with the East, and emphasize our desire for agreement on guidelines for government financing of exports to communist countries.

Follow-on to the Summit

Establishing a follow-on consultative mechanism would emphasize the seriousness of the Summit's conclusions and its contribution to economic cooperation among the industrial countries. We should support periodic consultations among our representatives over the next year to review progress toward agreed objectives, and assess the economic performance and policies of individual nations in this light. Liaison among ministers representing the Summit participantes (plus Canada), utilizing existing mechanisms to the maximum extent possible, would maintain the highest flexibility while ensuring proper follow up.

THE WHITE HOUSE

WASHINGTON

November 8, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS
BRENT SCOWCROFT BS

SUBJECT: International Economic Summit

On October 10, 1975, the White House announced that the United States would participate in an International Economic Summit Conference in Paris, November 15-17, 1975. That same day Working Groups composed of members of the EPB/NSC were established and assignments were made in six areas to prepare briefing materials for the Summit.

The Departments of State, Treasury, Commerce, Labor, the Council of Economic Advisers, the Special Representative for Trade Negotiations, the Federal Energy Administration, the Council on International Economic Policy, the Federal Reserve Board, and the National Security Council participated in the Working Groups and in the preparation of these papers.

First drafts of the papers were submitted by the Working Groups on October 21 and distributed to EPB Executive Committee members. A full morning session of the EPB Executive Committee was held on Saturday, October 25 to discuss the issues raised in the papers. On October 28, a memorandum was sent to the Chairman of each Working Group with comments and guidance for redrafting the papers. The redrafted papers were placed in final form on November 8.

In addition, a Senior Working Group, chaired by Secretary Kissinger met on October 29, November 3, and November 6 to discuss preparation and strategy for the Summit.

The EPB Executive Committee will meet the afternoon of November 10 to discuss the final drafts of these papers and a group will meet with you on November 12 to discuss final preparations for the Summit.

The briefing papers cover six areas -- Economic Recovery and Cooperation, Trade, Monetary Issues, Relations with Developing Countries, Energy, and East-West Economic Relations -- corresponding to the subjects that comprise the agenda for the Summit meetings.

The first section of the briefing materials consists of the following for each of the six subject areas:

(1) An outline of the fundamental issues;
(2) A statement of U.S. objectives;
(3) Remarks for your use at the Summit meetings.

A proposed "Joint Statement" or communique language has also been drafted with interagency clearance and is included.

The second section of the briefing materials contains background and analysis of each of the six subject areas.

INTERNATIONAL ECONOMIC SUMMIT

TABLE OF CONTENTS

PART I

TAB A

ECONOMIC RECOVERY AND COOPERATION

FUNDAMENTAL ISSUES

Adequacy of U.S. Economic Stimulus

Expansionary policy measures taken in the various industrial countries have achieved only limited visible success so far. Economic recovery appears to be underway in Japan, and is just beginning in Germany, France and Italy. (In the United Kingdom, continuing inflationary pressures prevent expansionary policies.) Unemployment in the industrial countries is at post-war high levels. But additional domestic stimulus, on top of the measures already taken, would probably do little to restore confidence and, in fact, might be counter-productive by re-igniting inflationary expectations.

Therefore, foreign leaders, particularly in Europe, have frequently stated that a strong U.S. recovery would help their recoveries by increasing demand for their exports and convincing their citizens that their countries too can overcome current economic problems. This would, as they see it, cause consumers to be less cautious and, therefore, to increase spending thus stimulating more rapid growth. The Europeans may question whether the U.S. is doing enough to achieve sustained growth -- particularly whether restrictive U.S. monetary policy risks are aborting the recovery. There is also concern that a decline in the exchange rate of the dollar will weaken the competitiveness of European exports (which is covered in the monetary section). They may question how long the U.S. recovery will continue, and at what levels. They may, further, suggest that you put pressure on Chairman Burns to increase the rate of money creation beyond the present guideline of 5-7½ percent annually.

Restoring Confidence

What can be done collectively and individually by the participants to restore confidence in the ability of the industrial democracies to overcome present difficulties and to manage their economies successfully in the future?

Goals or Objectives

Should common goals for recovery be agreed to, and if so, how specific or ambitious should they be?

Follow-on

What types of follow-on mechanisms should be established to implement the agreements at the summit?

U.S. OBJECTIVES AT THE SUMMIT

To use this, your initial statement, to elevate the focus of the summit to discussion of broader issues of economic cooperation aimed at sustained growth and improvement of the international economic system.

To explain clearly the strength of the U.S. recovery since early spring, and our growth projections for the next two years, while indicating the relatively modest contribution which our recovery can make to recovery in other countries.

To reach broad agreement on objectives around which economic cooperation or consultation can be centered, including generalization of recovery to all the major industrial countries in 1976, restoration of sustained vigorous expansion and high employment in 1977, accompanied by a reduction in the rate of inflation and reduction in the disparity among national inflation rates.

To identify barriers or threats to achievement of long-term growth objectives (e.g., protectionism, financing problems, and declines in productivity and investment) and determine how to overcome them, with particular emphasis on increasing momentum in the Mulilateral Trade Negotiations by setting a tight timetable.

While we should be clear that current problems did not result from lack of adequate consultation, we should attempt to improve on existing consultative mechanisms to avoid incompatible or disruptive actions, to achieve better understanding of one another's policies and objectives, and to monitor achievement of goals established at the summit (designating Ministers to meet subsequently to recommend such actions as are necessary to achieve agreed goals).

REMARKS ON ECONOMIC RECOVERY AND COOPERATION
FOR USE BY THE PRESIDENT AT THE ECONOMIC SUMMIT

I should like to express my satisfaction at the consultations I have had with all of you over the past year. Your views have represented important inputs into our policy-making process, and our conversations have made me and my colleagues more aware of the interrelationships among our economies. This summit represents a significant step in the process of close consultations which we have developed with one another -- a process which has been personally most gratifying to me and which I would like to continue.

INTERDENPENDENCE AND THE NEED FOR COOPERATION

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 at 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 unprecendented 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.

CURRENT STATE OF THE U.S. 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 U.S. 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 at seasonally adjusted annual rate of over 13 percent. Over the same period, total civilian employment has increased over 1-1/2 million jobs and productivity has advanced strongly. Although we consider our 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 percent. 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 U.S. 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 U.S. 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 to 7 percent through the middle of next year, and at average rate of approximately 5 percent 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 to 7 percent 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.

World Recovery

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 probable 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 percent 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 U.S. recovery has proceeded ahead of the recoveries for most of your countries. The U.S. economy is moving from a fall in real GNP of about 5 percent between the second quarter of 1974 and the second quarter of 1975, to a rise in real output of between 7 and 8 percent 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 to 4 percent and this should be of considerable help to you. But somewhat faster growth of the U.S. economy than now envisaged would make only a modest, if not negligible, contribution to world recovery. A percentage point of additional growth of the U.S. economy (over and above what is expected now) would affect the growth of the European economies on the order of 1/10 of 1 percent 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.

RESTORING CONFIDENCE AND ECONOMIC GROWTH

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 under way.

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 maximizes 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.

GOALS FOR OUR COOPERATIVE EFFORT

We should make 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 determing 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 consumers 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.

A FOLLOW-ON TO THE SUMMIT

The objective of the Summit is to build confidence in the economic and political future of the industrial democracies. This requires that the Summit both establish a sense of direction for these countries and a capability to pursue it through cooperation and strong leadership.

There may be advantage to establishing a follow-on mechanism to oversee progress on whatever economic objectives are set at the Summit. Such a mechanism would emphasize the seriousness of the Summit's conclusions and its contribution to economic cooperation among the industrial democracies.

Should the question of a follow-on mechanism be raised, it is suggested that you adopt the following position:

> We should consider how our further cooperation will advance the conclusion we can reach here. There may be advantage in our representatives meeting periodically over the coming year to review progress toward our agreed objectives and the relationship of our economic performance and policies in this light.
>
> Each country should designate a minister to establish liaison with the other countries. I have asked Bill Simon to serve for the U.S. in this effort.
>
> We should allow these representatives to utilize existing mechanisms to the maximum extent possible and in any event the highest flexibility should be maintained.
>
> In this effort, it is essential that Canada take part. They are as large a participant in international trade as the other countries in the meeting. The follow-through would, in my view, fail without them.

TAB B

TRADE

FUNDAMENTAL ISSUES

Protectionism

How can the participating governments stem the protectionist pressures, which are threatening to undermine international cooperation on trade matters?

There are increasing signs that governments are weakening their resistance to protectionist pressures. These signs include the imposition of trade restrictions by Australia, New Zealand, Portugal, and Finland; increasing talk of possible trade restrictions by government leaders in the UK and Italy; a request by the EC for a consultation in the OECD on steel; and surge of requests for protection by U.S. private sector groups. Sharing a concern for these developments, the other participants are also likely to insist that the U.S. Government do more to discourage private petitions for escape clause, anti-dumping, countervailing duty, or other types of remedial import measures.

Multilateral Trade Negotiations

How can the participating governments reinvigorate the multilateral trade negotiations, both as a defense against near-term protectionist pressures, as well as a vehicle for achieving the long-term economic benefits of the continued liberalization and reform of the world trading system? Trade negotiators for other countries are showing increasing reluctance to push the current Tokyo Round of multilateral trade negotiations on a priority basis.

The other participants are likely to support a reinforced commitment to the multilateral trade negotiations, though most of them (with the exception of Germany) are likely to be less enthusiastic than the United States.

Gentlemen's Agreement -- Export Credits

How can international agreement be reached on commonly accepted guidelines for government sponsored export credits? Discussion on such an agreement have bogged down.

Trade Relations with Developing Countries

How can the positive atmosphere generated by the UN 7th Special Session for trade relations between developed and developing countries be preserved? The developing countries have been particularly hard-hit by the economic recession and the increase in the oil price, and they are seeking to rectify their deteriorating situation through a radical New Economic Policy. Their persistent sponsorship of this policy has led to increased tension with the developed countries. The other participants are likely to agree to special efforts in the multilateral trade negotiations to improve trade relations with developing countries.

Trade Relations with France

How can we assure the cooperation of France on trade issues, particularly the multilateral trade negotiations? French representatives at the working level have been the most recalcitrant within the EC in working out mutually acceptable solutions on disputed issues, both on bilateral issues as well as the mulilateral trade negotiations.

The main reasons for this are: (a) a fear that a negotiated reduction of the common external tariff would reduce its value for European unification; (b) as a major beneficiary of the Common Agricultural Policy, they are reluctant to negotiate any limitations on the border effects of that policy; and (c) a feeling that trade negotiations are inappropriate when exchange rates fluctuate widely.

U.S. OBJECTIVES

Reaffirm the commitment of the participating countries to the goal of trade liberalization, opposition to protectionism and determination to aid the participation of the developing countires in trade.

Clarify the concerns being expressed as to whether the U.S. is going protectionist by unequivocally stating our goal of open and nondiscriminatory world trade.

Obtain a strong commitment from the participating heads of state to provide leadership in the GATT multilateral trade negotiations as the best way of expanding trade and perfecting the international trading system.

Reaffirm the adherence to the OECD Trade Pledge by the participating countries.

Obtain joint instructions to the participaitng nations' negotiators to conclude successfully a Gentlemen's Agreement regarding export credit terms.

In a private conversation, urge President Giscard d'Estaing to encourage his negotiators to be more forthcoming in the negotiations. (They have twice torpedoed US-EC agreements on agricultural negotiations.)

PROPOSED REMARKS ON INTERNATIONAL
TRADE FOR USE BY THE PRESIDENT
AT THE ECONOMIC SUMMIT

The United States is firmly committed to the goal of an open world economy. I am convinced that this goal can best be served if we join in providing leadership in the current Tokyo Round of multilateral trade negotiations.

I urge that we reconfirm our willingness to negotiate all items of trade involving tariff and non-tariff measures with the following goals:

substantial tariff cuts no less ambitious than in the Kennedy Round;

reduction of non-tariff measures through the negotiation of agreed codes on subsidies, standards, and government purchasing practices;

in some commodity areas, the elimination of all tariff and non-tariff barriers to trade;

completion of the tropical products negotiations in in 1976;

additional arrangements for meaningful, special, and differential treatment for the developing countries;

a significant improvement in the trade regime affecting agriculture.

In the past year, our U.S. negotiators have had extensive consultations with Congress and private sector groups in order to establish a broad consensus in support of U.S. aims. These deliberations have confirmed the goals which we set ourselves in the Tokyo Declaration 2 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 2 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.

ADDENDA

REMARKS FOR RESPONSE TO ALLEGATIONS OF U.S. PROTECTIONISM

In initiating investigations in response to private petitions for import relief under escape clause provisions and for remedial actions against foreign unfair trade practices, the U.S. Government has acted strictly on the basis of domestic legal requirements.

To date, the increase in petitions has led only to investigations, and, with a minor exception, not to remedial actions.

To the extent private petitions for remedial actions against unfair foreign trade practices are found to be justified, the source of protectionism can be found in these unfair practices not in possible remedial measures by the U.S. Government.

The U.S. Government is prepared to use whatever flexibility it has available within the law. This flexibility is significantly enhanced if foreign governments show equal flexibility in adjusting unfair trade practices that have given rise to justifiable complaints in the United States.

We recognize that we have had some long-standing disagreements over criteria of fairness which are to be applied in the administration of countervailing duty and anti-dumping duties. Since the United States has never recognized standards which have been adopted by other countries, we cannot legitimately be accused of violating international obligations. We are ready, however, to resolve these differences in the Multilateral Trade Negotiations, provided other countries actively join us in a serious discussion of this issue.

We frankly have to face up to major differences over trade measures in the agricultural area. To resolve these differences will require considerable good will on everyone's part and a serious intention to negotiate an accommodation in this area.

We are prepared to join other countries in a joint pledge to use restraint in the application of all border measures, including specific measure to the extent permitted by domestic laws. We are prepared to consult fully on all potential actions, and to make every effort to work out mutually acceptable accommodations where action is unavoidable.

REMARKS FOR BILATERAL DISCUSSIONS
WITH PRESIDENT GISCARD D'ESTAING

The summit provides a good opportunity to reinforce President Giscard d'Estaing's personal commitment to the Tokyo Round, and to ask him for his personal leadership and support to assure the success of these negotiations. Despite President Giscard d'Estaing's personal commitment to negotiations aimed at liberalization of world trade and a cooperative approach to trade issues, French representatives in the EC have repeatedly taken a very uncooperative stance on a number of issues of dispute between the U.S. and the EC. We suggest that President Ford seek an appropriate occasion to discuss this matter with Giscard d'Estaing privately.

Multilateral Trade Negotiations

France has repeatedly blocked agreement between U.S. and EC officials on disputed issues. The reasons for this are:

1. In France's view, a negotiated reduction of the common external tariff could reduce its value for European unification.

2. A negotiated liberalization of trade measures associated with the Common Agricultural Policy would impinge heavily on France, one of the major beneficiaries of a protected European market for agricultural goods.

3. France has argued that a reduction of trade barriers is not very meaningful when exchange rates fluctuate widely. In this connection, France may raise the link that was established in the Tokyo Declaration between the multilateral trade negotiations and reform of the International Monetary System.

We need to convey to President Giscard d'Estaing the following points:

progress in the Tokyo Round is essential for preserving economic cooperation between Europe and the United States. There are a number of potential sources of trade conflicts between the United States and Europe; these can best be settled to everyone's satisfaction in the context of negotiations aimed at the expansion of trade.

the multilateral trade negotiations can make a particular contribution in removing, or reducing potential friction on agricultural trade issues. Since agricultural trade issues are as important politically in the United States as they are in France, negotiations of mutually acceptable solutions in this area are essential for smooth economic relations.

France should remove its objections to a compromise worked out between U.S. and EC negotiators on procedures to be followed on agricultural trade issues in the multilateral trade negotiations. The compromise would not resolve substantive differences between the U.S.and EC objectives in agricultural trade, but it would allow us to continue negotiations without prejudicing either side's long-term interests.

Gentlemen's Agreement on Export Credits

An uncompromising stance by France is also holding up progress on a Gentlemen's Agreement on official export credits. We would like to reach a firm agreement on an interest rate of at least 7 1/2% and no terms above five years on exports to other industrialized countries or oil producing countries. Germany has put a compromise proposal on the table that would bridge the gap between the U.S. and European objectives. France is the only major country which has rejected this proposal outright. We should urge President Giscard d'Estaing to take a positive stance toward concluding such an agreement.

TAB C

INTERNATIONAL MONETARY ISSUES

FUNDAMENTAL ISSUES

Exchange Arrangements

This issue has two aspects:

1. The "constitutional" question of how to amend the present IMF Articles of Agreement. The IMF Articles now provide only for par values within one percent margins. In effect, no member of the IMF abides by these provisions at this time.
2. The "operational" question of whether, and if so how, to reduce fluctuations in exchange rates in present circumstances.

The collapse of the Bretton Woods par value system and adoption of widespread floating of exchange rates in 1973 made exchange arrangements a central issue of monetary reform negotiations. In the early stages of these negotiations--in the context of a comprehensive, highly structured plan to reform the international monetary system -- it was agreed that the future system should be based on "stable but adjustable par values with provision for floating in particular situations." This phase masked deep differences of view between the U.S. and France.

The earlier negotiations were overtaken by the financial consequences of the oil price increases which made adoption of the comprehensive system then under discussion impractical. There is now no prospect that the adjustment safeguards that would be essential to adoption of a system based on par values will be accepted, and adoption of such a highly structured system is no longer under active discussion.

On the "constitutional" issue, the French want a commitment to par values at some future date, while it is of great importance to the U.S. economy that we have the right to float. On the "operational" question, the French want to reduce fluctuations through central bank intervention and "management" of exchange rates, while we want to avoid commitment to intervention to maintain a particular exchange rate structure and want to restore "stability" by restoring stability to underlying economic conditions.

U.S. OBJECTIVES FOR THE SUMMIT

With respect to exchange rates, the U.S.:

Must avoid either a legal or a moral commitment to a par value system, to a par value of the dollar, to efforts to establish and maintain "zones" or "bands" around particular exchange rates, and to agreed restraints on exchange rate movements within a day or other period. We have had clear indications that the Congress would not be willing to approve such commitments.

Should reaffirm our willingness to cooperate in exchange market intervention to maintain orderly markets and indicate that we are prepared to explore the question whether there are suitable actions that could be taken to achieve a greater degree of exchange rate stability under current conditions.

Should indicate that our willingness to cooperate in the area of intervention is conditional on a satisfactory agreement on amendment of the exchange rate provisions of the IMF Articles.

Both the U.S. and France share the broad objective "exchange stability" -- the differences are over how to achieve it. Both we and they recognize that a system of exchange rate arrangements based on par values would not be viable now and that a continuation of floating is necessary. Despite remaining differences, these are important points on which a mutually satisfactory solution can be built. At the request of the major countries, the U.S. is currently engaged in intensive bilateral discussions with France in an effort to find a satisfactory solution to both the constitutional and operational questions. We are exploring alternative approaches, and we think the prospects for success are reasonably good.

The issues involved, while phrased in arcane terms, have fundamental economic implications for the United States. At stake are the international competitive position of U.S. business and labor, and our ability to maintain domestic economic policies directed to domestic economic needs.

If our conversations with the French have not led to an agreement by mid-November, the Summit can make an important contribution by noting the discussions underway and the progress being made, and providing an expression of political will that the participants intend to find a solution to the exchange rate question.

[redacted]

Our Congress has made
it very clear to us that
any argument that says
it implies a return to
fixed rates (par values)
would not be accepted.

I would favor
a statement in our
Communique that the
French + U S have resolved
the Exchange Rate matter
(if indeed we succeed today)
which would be a signal
that the overall agreements -
are ready for signature in
January -

PROPOSED REMARKS ON MONETARY POLICY
FOR USE BY THE PRESIDENT AT THE ECONOMIC SUMMIT

During the past year our Finance Ministers have been engaged in intensive negotiations 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. We all share the broad objective of exchange stability. We all agree that a system of exchange rate arrangements based on par values would not be viable now.

Agreement on these two points should give us the basis of a solution. Various alternative formulations of countries' exchange rate obligations under amended IMF Articles are under consideration, and the question of whether there are suitable actions which can be taken to achieve more orderly exchange markets under current economic conditions is being actively explored.

We believe that the resolution of these issues must be strongly 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 capital restrictions and other beggar-my-neighbor practices. Consistent with this concept there are no doubt a number of alternative formulations that might be considered.

In seeking to maintain orderly conditions in exchange markets, we should be similarly 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 and have made good progress. 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 and are confident that we should be able to wrap this issue up by next January.

TAB D

RELATIONS WITH DEVELOPING COUNTRIES

FUNDAMENTAL ISSUES

United States initiatives at the Seventh Special Session of UN General Assembly and the successful Preparatory Committee for the producer/consumer dialogue have produced a more constructive environment for North-South relations. In effect, the LDC moderates have opted for pragmatic cooperation with the West -- where their economic interests necessarily lie. The OPEC countries and the more radical non-aligned will seek to counter this development with new OPEC aid proposals and new efforts to forge a political and idealogical base for LDC unity.

The credibility of the West's cooperation is now being tested in negotiations to implement key elements of our UN initiatives -- our proposal for stabilization of overall export earnings through the IMG (the Development Security Facility), increased capitalization of the World Bank's International Finance Corporation, the new gold-based Turst Fund for poorer LDCs in the IMF, the International Fund for Agricultural Development under the World Food Council. We are pushing these, with some success so far, but each Summit participant is luke-warm to one or more of these. Miki may suggest a new export earnings stabilization scheme, on a commodity-by-commodity basis, that would be competitive with our Development Security Facility.

Concern is now focusing on the LDCs precarious balance of payments deficits. They face a current account deficit of about $30 billion this year and $25 billion next year (about twice their normal deficit), with the lion's share attributable to some LDCs of importance to U.S. (Brazil, Mexico, Egypt, South Korea). These increased deficits reflect recession in the West and higher oil prices. OPEC may seek to "save" the LDCs with new fund proposals. The Germans and French may propose a moratorium on service of official debt, particularly from the lower-income LDCs. The British may suggest a special SDR allocation for LDCs only.

Wilson may also raise this proposal, made at the Jamaica Commonwealth Conference, for a new international commodity organization.

U.S. OBJECTIVES AT THE SUMMIT

In the Summit deliberations, the U.S. objectives are:

to reassert the industrial West's commitment to development cooperation;

to highlight the critical role of economic recovery in the industrial countries to LDC prospects;

to maintain U.S. leadership in guiding the industrial and developing countries toward a more constructive relationship. In particular to press forward those specific proposals in development cooperation which we can support (given our severe budget and Congressional constraints);

to attempt to reach a common appreciation of the extraordinary balance of payments difficulties faced by the rapidly-industrializing LDCs and stress private markets and IMF financing as the best response (not debt moratoria and SDRs);

to secure endorsement of our approach to developing country commodities problems particularly the Development Security Facility in the IMF and a constructive case-by-case approach to ongoing and upcoming commodity negotiations, as well as firm resistance to indexation.

REMARKS ON RELATIONS WITH DEVELOPING COUNTRIES FOR USE BY THE PRESIDENT AT THE ECONOMIC SUMMIT

The successful conclusion of the UN Seventh Special Session and of the Preparatory Conference for the Paris dialogue has greatly improved relations between developing countries and the industrialized world. The United States is firmly committed to a cooperative and constructive relationship with the developing nations and to speedy implementation of the proposals advanced by Secretary Kissinger to the Seventh Special Session and by Secretary Simon to the International Monetary Fund in September.

Continued improvement in these relations and continued moderate behaviour by the more radical developing countries depend on: a strong, but non-inflationary recovery from recession; serious efforts to implement the proposals advanced at the UN Special Session; and a successful launching of the dialogue at the December Ministerial Conference on International Economic Cooperation in Paris.

Economic recovery among the industrial countries and maintenance of developing countries access to our markets, for both trade and finance, are the important positive contributions we can make to progress in the developing world.

We need to move forcefully in implementing some of the major initiatives launched at the UN Special Session, partiularly the Development Security Facility of the IMF, the IMF Trust Fund, the International Fund for Agricultural Development, and proposals for the World Bank group, including an expansion of the capital base of the International Finance Corporation.

(If raised by Miki). We find the Japanese proposal for earnings stabilization an interesting idea and support the general concept of earnings stabilization. A number of proposals have been advanced in the International Monetary Fund and we suggest that the Japanese proposal be considered in the context of deliberations of the Fund's Executive Directors.

The most immediate problem facing the developing countries is their enormous balance of payments deficit. We can not insulate the semi-industrial LDCs from some slow down in their growth rate, but we can help by providing access to our capital markets and adequate balance of payments financing through the IMF. Financial help should be specially tailored to the varying problems of developing countries. We favor the IMF Trust Fund for the poorest, expanded IMF financing (tranches) to help the semi-industrial developing countries in particular, and export earnings stabilization for those dependent on commodities.

(If raised by Schmidt or Wilson.) Debt moratoria and SDRs for aid purposes pose serious long-term problems for management of the international financial system. Moreover, they do not meet the current problem in that they spread grant assistance among all developing countries, when the need is greater access to financing for a few, large developing countries and a concentration of grant aid on the poorest.

We need to move positively in implementing some of our commodity proposals while rejecting indexation proposals. We should take a constructive case-by-case approach to ongoing and upcoming commodity negotiations while rejecting arrangements that drive commodity prices to unnecessarily high levels. Producer/consumer fora should be established for specific commodities in which they do not now exist. They should emphasize improving the operation of markets.

(If raised by Wilson.) We question the need for a new international organization for commodities generally, given the existing ones (UNCTAD in particular).

I would hope that we can promote early action on an international network of grains reserves as a food security measure of significant benefit to grain-importing developing countries. We also need to negotiate arrangements in the Multilateral Trade Negotiations that are of special benefit to the developing nations in order to integrate them more fully into the world's trading system.

Industrial country cooperation is essential to continued improvement in North-South relations. The industrialized countries need to work together closely in developing their positions for the upcoming Paris Conference on International Economic Cooperation. We hope that the OECD can be used as a backup for the Conference for this purpose.

TAB E

ENERGY

FUNDAMENTAL ISSUES

The major energy issues to be addressed at the Summit will include:

(1) the status of the U.S. domestic energy program, in general, and oil price decontrol in particular;

(2) IEA's ability to agree on the long-term program for energy cooperation by the December 1 deadline; and

(3) the role of the new economic dialogue in dealing with oil prices and security of supply.

U.S. OBJECTIVES AT THE SUMMIT

We want to use the Summit to reinforce and give high level impetus to our overall energy strategy in three key areas.

First, we need to convince other Summit participants that the U.S. is developing an effective domestic energy program that will reduce significantly our oil imports. The Europeans and Japanese are confused by the disagreement between the President and the Congress on energy policy. Without ressurance that we can support our international strategy with an effective domestic energy program, they will be tempted again to try to solve their energy needs on a bilateral basis with major producers, jeopardizing our own domestic energy objectives and our international leadership in energy.

At the Summit, we should emphasize the impact of the domestic energy actions we have taken or will take. Since others regard oil price decontrol as the most important element in our energy program, we should demonstrate our determination to end regulated oil prices, either through an agreement with Congress on phased decontrol or abrupt decontrol in the absence of an Executive-Congressional compromise.

Second, we should push for firm consensus on the need to reduce dependence on imported oil. We should also stress our conviction that cooperation among consuming countries will reinforce our individual energy programs and ensure that our combined effort will achieve our objectives of reducing our vulnerability to foreign supply disruptions and arbitrary price increases. In doing so, however, we should avoid appearing to criticize France, which has shunned formal consumer cooperation in dealing with the energy problem, by not joining IEA, but must acquiesce to IEA programs before they can be adopted by the European Community.

At the Summit we should try to win endorsement among the five IEA participants for the major elements of the long-term program for energy cooperation, scheduled for adoption on December 1. In March, IEA members committed themselves in principle to the long-term program, including the U.S.-proposed minimum safeguard price system (MSP) for imported oil, joint R&D, and cooperation on major new energy projects. Britain, Norway and Canada are anxious to get the MSP at a high level ($9 a barrel); Germany and other energy-deficient countries want it at a low level ($5 or $6 a barrel). But Italy and Japan continue to resist the actual fixing of a price. They see it as a potential domestic political liability since it would aim primarily at protecting energy investment in other countries. With the blocking out of a complex long-term agreement on R&D, joint projects, and conservation, they now appear more willing to complete the MSP agreement. A U.S. offer to consider special investment access and product export guarantees on major new projects has made the overall long-term package more attractive to them.

We believe we are near agreement on an effective overall program which will provide an equitable sharing of costs and benefits. The adoption of this program by the December 1 deadline is important in both energy and political terms. It will help to demonstrate to OPEC and our publics our determination to reduce dependence on OPEC oil. It will also provide a cement for continued coordination of our approaches to the producers as we go into the dialogue.

Third, we want to lock all Summit participants, including France, into a common strategy and set of objectives for energy in the forthcoming economic dialogue. We want the energy dialogue to give priority to the smooth integration of the oil producing countries into the Western financial and trading systems with special attention to LDC problems. We do not think it possible to use the dialogue to get relief from high oil prices, and we oppose OPEC demands to index oil prices.

The British, Japanese and Canadians share our view that the dialogue will not induce the producers to cede their unilateral control over prices. The Germans generally agree although they think we should try to negotiate a permanent "consultative arrangement" for producer/consumer discussion of oil prices. Because of their heavy dependence on imported oil, Japan and Italy are concerned that any appearance of confrontation be avoided. The French will seek in the dialogue to play a mediating role between the oil producers and major consuming countries, which they believe will reap them political and probably economic benefits.

REMARKS ON ENERGY FOR USE BY THE PRESIDENT
AT THE ECONOMIC SUMMITT

It is clear that the energy problem is a fundamental challenge to the future of each of our nations and to that of the global economy.

All of us are economically and politically vulnerable because of our excessive dependence on imported oil. The 1973 embargo and the massive oil price increases destabilized our individual economies, sharpening inflationary pressures, increasing unemployment, slowing economic growth. I do not think there is any question but that the quintupling of oil prices has contributed to the depth of this recession and to the difficulty of recovery.

The political effects are clear too. A strong new economic and political force has appeared in OPEC. Its gains in influence are precisely mirrored by our losses. We have seen the impact of OPEC's success on the developing countries -- even though these countries have been the chief losers in economic terms. And there is no doubt that with their vast financial wealth, the oil producers have increased significantly their influence on the industrial countries as well. With the new Sinai disengagement agreement, the threat of a new embargo has receded, but OPEC's power to impose another embargo remains.

I think we are all convinced that we must reduce our vulnerability. We must adopt policies and implement programs that will cause a shift in the balance in the world oil market and thereby end OPEC's unilateral control over price. Each of our nations must contribute substantially to the total effort, because none of us has the economic strength and weight to devise a unilateral solution to the problems of energy supply and price.

Many of us have decided that, in addition to our domestic energy programs, we should join together in a common approach to reduce our dependence on imported oil. This cooperation will ensure that our individual efforts reinforce each other and that taken together they are adequate to achieve the purpose. Other saw greater utility in concentrating on independent action.

Regardless of which course we have chosen, we must not flag in our individual efforts. As major oil importing countries, we are bound together by the world oil market. We will succeed or fail together because weakness in any of our countries makes all of us vulnerable.

REMARKS ON ENERGY FOR USE BY THE PRESIDENT
AT THE ECONOMIC SUMMIT

The Necessity of Strong Domestic Programs

Strong domestic energy programs are absolutely critical. Without them, other efforts will be fruitless. Some of us have moved more rapidly than others to implement our individual programs, although all can point to achievements in certain areas. But to reduce significantly our import dependency, we must redouble our efforts and sustain them in the coming years.

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.

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 U.S. 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 percent 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 percent 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. 1977

-- 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.

I am also pressing Congress to end price controls on domestically-produced new natural gas, and the Senate has already voted to do so. We plan to stimualte rigorous energy conservation programs in factories and homes. These measures will quickly affect energy consumption patterns.

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.

The Importance of International Energy Cooperation

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 U.S. 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 environmentallist 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.

The Role of the Dialogue

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 bargining 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 subtantive issues.

[redacted]

We think the dialogue will contribute signficantly 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.

Conclusion

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 maximun 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.

In dealing with the producing nations in the next few weeks I reiterate what I said yesterday – The consuming Nations must be firm & forthright without being belligerent. We cannot passively accept unilateral OPEC price increases without our views heard loud & clear

TAB F

EAST-WEST ECONOMIC RELATIONS

FUNDAMENTAL ISSUES

Other countries are likely to raise the following issues.

They will want to know whether it remains U.S. policy to promote detente through increased trade and economic exchanges. They will therefore want to know the progress of Administration efforts to amend the Trade Act (Jackson-Vanik Amendment) which is the major impediment to such exchanges.

They may express concern that the U.S.-U.S.S.R. bilateral grains deal will impair their access to U.S. grains supply, may increase prices, and may portend a U.S. shift toward bilateral grains trading arrangements.

They may express concern that conclusion of a U.S.-U.S.S.R. oil deal might impair access to Soviet oil, particularly for Italy and Germany.

Other participants, notably France, and the U.K., may well express their wish to continue to provide credit to nonmarket economy countries on very soft terms.

They may well express concern that the U.S. is unnecessarily delaying the COCOM review which will shortly enter its fourth round. Other countries will ask the U.S. to be more forthcoming, timely, and flexible. The U.K. may even suggest that the COCOM system be abolished as an unnecessary impediment to trade.

U.S. OBJECTIVES AT THE SUMMIT

To assure other participants that the U.S. remains committed to consultation with them in formulating East-West economic policies; and similarly, that the U.S. expects that the other participants will conduct their East-West economic relationships in close consultation with us.

To assure other participants that the U.S. is committed to pursue economic interchanges as an element of its policy of improved relationships with the communist countries. As part of our effort to promote this objectives, we are working to secure amendment of the restrictions contained in the Trade Act.

To reassure the participants that the U.S. does not intend to conclude bilateral grain commitments with <u>any</u> other country.

To reassure the participants that a U.S.-U.S.S.R. oil agreement will operate to the advantage of all by making a new addition to the West's petroleum supply.

To secure cooperation of the participants in an agreement under which all will adopt the same credit terms for export sales including those to the nonmarket economy countries.

If the subject of COCOM is raised by others, to attempt to achieve agreement that the COCOM system continues to be an important means of safeguarding the mutual security of all, to urge that others secure greater compliance with existing COCOM controls, and to express our willingness to explore ways to expedite U.S. Government processing of other's requests for COCOM waivers.

REMARKS ON EAST-WEST ECONOMIC RELATIONS FOR USE BY THE PRESIDENT AT THE ECONOMIC SUMMIT

I welcome the inclusion of East-West economic relations on 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 multimillion 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 U.S. 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.

Ch. 5

Two Decisions

1] Test case / capacity to meet

2] Oil prices / 1976 - OPEC

Decisions serious.

Economic recovery

~~New Sources~~

Excess refinery capacity.

Where

Coal bankruptcy

Conversion to coal.

No Common Approach.

Indexing

Floor Price (Safeguard price)

Japan

nuclear development
joint R.&D.

Pres. G.

new producers –
act like OPEC.
multinationals
Nationalization

Indexing –
$ – income.

CC – oil marketing

Confrontation – ?
Put moderates with
radicals.

Agree to Inform – highest
level.

U.S. Wheat Exports
(million metric tons)

	Total	U.S.S.R.	Total Western Europe	Japan
1967/68	20.7			
1968/69	14.8		2.2	1.8
1969/70	16.5		2.2	2.4
1970/71	20.1		4.9	2.9
1971/72	17.2	.003	2.2	2.2
1972/73	32.2	9.5	13.5	3.4
1973/74	31.2	2.7	2.0	3.1
1974/75	28.3	1.0		3.1

TAB G

JOINT STATEMENT

On November 15, 16 and 17, 1975, we held a searching and productive exchange of views on the world economic situation, on economic problems common to our countries, on their social and political implications, on plans for resolving them, and on the need and the opportunity for mutually supportive cooperation.

We came together because of shared beliefs and shared responsibilities. We are each responsible for the government of an open, democratic society, dedicated to individual liberty and social advancement. Our success will strengthen, indeed is essential to democratic societies everywhere. We are each responsible for assuring the prosperity of a major industrial economy. Our growth and stability will help the entire industrial world and developing countries to prosper.

The industrial democracies have had these last two years to face major social and economic challenges unprecedented in the post war period: the energy crisis, high unemployment and continuing inflation.

The industrial countries are responding constructively to these challenges. The purpose of our meeting was to review our progress, identify more clearly the problems that we must overcome in the future, and to set a course that we will follow in the coming months.

Our first urgent task is to assure non-inflationary recovery of our economies and the world economy as a whole. Our efforts for reducing unemployment and inflation, for stimulating investment, for restoring consumer confidence are compatible and mutually supportive. While we are at different points in our fight against recession and inflation, we are confident that the industrial economy as a whole is on the road to recovery.

We must now aim to generalize the recovery during 1976 among the major industrial countries. We will seek to restore a sustained vigorous economic expansion and high levels of employment by 1977. At the same time, we are determined to reduce the rate of inflation in our economies as a whole as well as the disparities among national inflation rates. And we will seek to restore growth in the volume of world trade as domestic recovery and economic expansion proceed.

To assure success, we will consult intensively on our plans and prospects. We will cooperate more closely, using existing institutions and new ones if they are needed.

But recovery from the recession is not enough. We must create the conditions for stable growth over the long term. To this end, important new steps will be required in trade, money and energy.

International trade can be one of the most powerful forces for long term growth and lower inflation. To maintain an open trading system, we reaffirm our pledge to avoid restrictive actions. To expand world trade, we believe that the multilateral trade negotiations should aim at achieving tariff cuts no less ambitious than those of the Kennedy Round, in some cases by eliminating tariffs in given commodity areas, at significantly improving the regime for agricultural trade, and at reducing non-tariff measures through negotiations of codes. We set as our goal completion of the negotiations in 1977 and direct our Trade Officials to carryout this and our other goals in the field of International Trade.

The international monetary system must enable countries to pursue economic growth and price stability at home, while promoting the free flow of goods, services, and capital. To insure its effective operation, we will consult and cooperate more closely on economic policies. Stable domestic growth and reduction in disparities among national inflation rates will result in greater stability of exchange rates and facilitate the maintenance of orderly conditions in foreign exchange markets.

The excessive dependence of our countries on imported energy and the massive increase in oil prices are major obstacles to the future progress of the world economy. But they are obstacles that are within our power to remove. We will cooperate closely among consuming countries to reduce our dependence through conservation, technological exchange, exploration, and new production.

A cooperative relationship and improved understanding between developing nations and the industrial world is fundamental to the success of each. Sustained growth in our economies is necessary to growth in the developing world. We must move ahead in our negotiations for mutually beneficial new arrangements in trade, investment, agriculture, commodities, and aid. Our approach must be generous and compassionate. But it must also be realistic, resulting in a mutuality of shared interests.

Finally, we look to an orderly and fruitful increase in our economic relations with socialist countries as an important element in progress in detente, and in world economic growth.

PART II

INTERNATIONAL ECONOMIC SUMMIT

Background and Analyses Data

TABLE OF CONTENTS

INTERNATIONAL ECONOMIC SUMMIT

Background and Analyses Data

TABLE OF CONTENTS

TAB A - Economic Recovery
and Cooperation

TAB A-1

Economic Co-Operation to Re-Establish
and Maintain World-Wide Prosperity

Background and Analysis to Support U.S. Position

Economic Situation

The current recession appears to differ from previous post-war recessions not only in its breadth and depth, but also in the length of time it is taking for the respective economies to respond visibly to relatively large injections of fiscal and monetary stimulus. The direct impact of expansionary fiscal measures taken by the major industrial countries since the beginning of the year amounts to between 2-3 percent of their respective GNP's. And credit conditions have been eased in support of the expansionary fiscal policy stance. However, final demand has continued weak almost everywhere. The fact that response lags are so long probably relates largely to the need for the private sector to rebuild confidence regarding the economic outlook. Consumer and investor confidence had been undermined by a prolonged period of price inflation that reached post-war highs, and that was coupled with a rise in unemployment rates that also exceeded post-war experience. In addition, the need to assess the severity of adjustments resulting from the increase in the relative price of energy continues to add to the private sector's hesitancies with regard to spending plans.

With the amount of potential spending power currently built into the various economies, a turn-around in confidence could lead to a very sharp upturn in economic activity world-wide. Therefore, further simultaneous expansionary actions may prove to be counter-productive in the longer-run as they could either reignite inflationary expectations and thus hold back any recovery or lead to growth rates that could result in inflationary bottlenecks well before overall capacity utilization has reached normal levels.

Steps to Produce Stable Economic Recovery

Policy measures now in place generally should be sufficient to assure a balanced economic upturn. Any further measures that might be contemplated could best be concentrated in areas that would help to strengthen the foundation for continued stable non-inflationary growth. Such policies might include measures designed to promote competition, nationally and internationally, and to ensure the availability of sufficient capacity to meet the growing demand on various sectors of the world economy.

On the whole, Summit discussions could most productively center on what might be done to accelerate the restoration of private sector confidence. This could best be achieved in an atmosphere that does not attempt either to debate whether this or that nation's policies are adequate to the current situation or to put the "blame" for the current situation on policy decisions of individual nations. Rather, agreement might be reached that the severity of the economic shocks -- in particular those emanating from the large increase in the relative price of energy -- experienced by virtually all industrial nations over the past several years generally had been under-estimated -- partly because of a lack of understanding of how economic changes in one country impact upon another.

It should be clear that the current recovery is not being retarded by a lack of international cooperation. Nor would greater coordination or harmonization of policy actions be particularly helpful or practicable. The experience of 1972-73 has shown that simultaneous measures to reflate national economies, without due regard to the amount of spending power that is being built up world-wide by these measures, leads to world-wide inflation. Domestic economic, political and social policy objectives are generally such that policy decisions can be little, if at all, influenced by consideration of foreign preferences. However, progress can and should be made in areas that assure that cross-country policy choices are compatible.

Accordingly, the Summit discussions could try to arrive at a:

(1) commitment to restore economic prosperity without resurgence of inflation and to pursue this goal by mutually supportive policy actions;

(2) reiteration and possible broadening of existing commitments to work towards liberalization of trade and payments arrangements, in particular by reaffirming their strong commitment to the OECD trade pledge and by agreeing on a tight time table for the MTN.

Each of these commitments in essence represents a pledge to avoid beggar-thy-neighbor policies in the widest sense of the term.

<u>Longer-run Co-operation</u>

Achievement of mutually compatible domestic policies could be strengthened by:

(a) an improved understanding of how and why domestic policy makers view their own economic prospects in a particular way, how this fits into their view of the world economic outlook and how their own policy actions, including mix of policies, fits into this framework;

(b) an improved understanding of the transmission of changes in economic activity and price behavior across national borders;

(c) a broadening of the discussion of how, in the light of (a) and (b), national policies might impact on others in particular, and on the world economy in general, with a view to determining whether or not serious inconsistencies and incompatibilities regarding objectives or policies existed among nations.

The basic framework in which these dicussions might take place already exists: the Interim Committee of the IMF and the Economic Policy Committee of the OECD each provide a basic forum for such deliberations. Indeed, the intention has always been that some work of this nature would be performed by these bodies. However, because of the large number of participants and the generally cumbersome manner in which the meetings are conducted, consultations in these bodies have turned into something approaching a dialogue of the deaf and they generally have not been able to perform the constructive functions envisioned for them. In contrast, smaller, more informal groups, such as the Working Party 3 of the OECD's Economic Policy Committee (WP-3) have functioned much better. The intimate atmosphere in which the meetings of WP-3 are conducted and the mutual respect and understanding of basic thought-patterns that have been developed among participants over time, all have served to bring about a frank discussion of delicate and complicated matters that is notably absent in the deliberations of the larger groups. Thus, subgroups of the larger bodies, patterned along the lines of WP-3, might help to launch a constructive dialogue on the matters mentioned above.

A sub-group of the Interim Committee might regularly examine the world economic outlook. Participants in this group should be from national capitals, at the Deputy level, and would not necessarily include Executive Directors and Alternates. The advantage of this forum is that it would allow a continuing dialogue on broad economic questions among industrial countries, middle-income LDC's, oil producers and low-income LDC's.

A subgroup of the OECD's EPC, called the "EPC Bureau," might be strengthened to bring about greater understanding of the interaction of domestic policy actions and goals. This group is made up of the economic advis of the Big Seven OECD countries (US, U.K., Germany, France, Japan, Italy, Canada). They now meet for informal talks three or four times a year at the time of EPC meetings and other occasions such as the Bank/Fund meetings. Being small, this group is flexible and brings together the major economic powers. It has the advantages of a broad mandate and of being linked to the larger group of 24 OECD countries through the EPC itself, and to the OECD Secretariat staff and the Working Parties of the EPC upon which it can call for specialized staff work. A disadvantage of this group is that as presently constituted only one representative per country attends and there is no systematic preparation for meetings. In addition, smaller countries may be unhappy at being excluded (as they would be with regard to any restricted group.)

These groups would not obviate the necessity for general discussions such as currently take place in each plenary forum; on the contrary, their work could well contribute to making the plenary discussions considerably more meaningful than they are now.

Finally, Heads of Government could agree to have these groups report to them, possibly through Ministers, and possibly with a view to subsequent Summit meetings. Short of arrangements looking towards other Summits, one forum for reviewing or carrying forward the efforts initiated at the Summit would be the OECD Ministerial meeting which is scheduled to take place in any event late next spring. A two day meeting, chaired by Foreign Ministers the first day and Finance Ministers the second day, was successful last year and could be repeated. A meeting of the ministers of the Seven just prior to the OECD Ministerial would help consolidate the follow-on work from the Summit.

TAB A-2

The Transmission of Changes in Economic Activity Among Major Industrial Countries

Background and Analysis to Support U. S. Position

The simultaneous recession in the major industrial countries clearly has had significant chain effects on demand and output world-wide. World trade, for the first time since World War II, is registering a year-to-year decrease in volume. The shrinkage in the volume of world trade in 1975 may exceed 10 percent as compared with an average annual rate of growth of about 8 percent registered since 1960. Because of the large relative importance of trade in the total output of many countries, hopes for recovery have centered upon export-led growth in a number of smaller countries, as well as in France, Germany, Italy and the United Kingdom. In particular, export-led growth was to be sparked by a strong recovery of demand in the United States. For this reason, the sufficiency of fiscal and monetary stimulus built into the U.S. economy at this time is being questioned abroad.

An analysis of the facts, however, shows that further stimulus to the U.S. economy may do little to help speed recovery abroad. On the other hand, additional stimulus carries a considerable risk of having a net harmful effect because it might well serve to rekindle inflationary expectations. The evidence suggests that an additional one percentage point of growth of the U.S. economy (over and above what is currently expected for 1976) may produce an increase in the volume of world trade in 1976 of no more than 0.2 percent above what it otherwise would have been. By 1977, the extra one percentage point of U.S. growth could be expected to induce an expansion in world trade of 0.5 percentage points

The effect of this change in the growth of world trade on economic activity in the major industrial countries is very small indeed and certainly cannot be decisive to the path of world recovery. For Germany, the effect on GDP would be negligible -- less than 0.1 percent in 1976 and a bit over 0.1 percent by 1977. Effects on other European countries are of similar magnitude. Although the impact on Canada and Japan is somewhat greater, it is by no means of great significance: Canadian GDP in 1977 might be 0.4 percent greater than it otherwise would have been and Japanese GDP might be increased by 0.2 percent. (The multipliers shown in Table 1 give the average effect produced by a one percent change in economic growth in the first and in the third year after the change occurs.) 1/

This conclusion could also be illustrated by calculating, in any given country, the share that exports to the United States are of total exports. However, the simpler, sufficiently illustrative calculation which appears on Table 2 produces similar

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1/ These calculations derive from special simulations run through the LINK model by Professor Lawrence Klein of the University of Pennsylvania. The assumptions made were that the additional stimulus to the U.S. economy derives from a cut in personal income taxes sufficient to produce about a one percentage point of additional growth in domestic demand during 1976. The multipliers shown in Table 1 are derived from a general solution of the LINK-model over the entire sample period.

results. Based upon the relative importance of exports to the economy in question and the relative importance of U.S. imports in world trade, it is possible to make a very rough estimate of the amount by which the volume of U.S. imports would have to expand in order to produce a direct impact equal to 1 percent of GDP for an individual country. For example, French exports constitute 14.6 percent of French GDP. Thus, exports would have to rise by 6.8 percent in order to bring about a 1 percent increase in GDP. U.S. imports constitute 13.9 percent of world imports and, therefore, in order to get a 1 percent increase in world trade, U.S. imports would have to rise 7.2 percent. Consequently, U.S. imports would have to increase by nearly 50 percent in order to produce a direct impact of 1 percent of French GDP.

This type of calculation shows that on average for the 6 major foreign industrial countries U.S. imports would have to increase by over 40 percent in order to produce a direct impact of 1 percent on the rate of economic growth.

Under the usual, very simplified, assumption that for each percentage point increase in U.S. GNP imports rise by 2 percent, a 10 percent increase in U.S. demand, would raise U.S. imports by 20 percent. As U.S. imports constitute about 14 percent of world imports, world trade would be increased by 2.8 percent. This much oversimplified illustration clearly demonstrates that little can be expected for world recovery from additional increases in U.S. demand that remain within reasonable bounds. Moreover, the results of such admittedly simplistic calculations are consistent with the results derived from a number of econometric approaches in addition to those yielded by the LINK model, which takes into account both direct and indirect effects of demand changes in one country on activity in other countries.

Although the effect on world recovery of somewhat faster economic growth in U.S. activity may be small, the effect on world economic activity of the shift from a fall of over 5 percent in real U.S. GNP between the second quarter of 1974 and the second quarter of 1975 to a probable rise of 7 to 8 percent for the 12 months starting in July 1975 certainly must not be underestimated. In addition, it is likely that the recovery in the United States will be accompanied by similar, although perhaps somewhat smaller, shifts in the growth rates of the German and the Japanese economies. The simultaneity of these upturns, especially at a time when inventory levels have been drastically reduced, may have a very substantial effect on world trade. But, as shown in Table 1, the decisive factor for recovery in these three countries is the state of internal rather than the state of external demand. A resumption in the growth of external demand can quicken the pace of recovery of domestic demand, in part because of its effect on business confidence and on the general economic climate. But some acceleration in the growth of export demand under reasonable assumptions about additional growth potentials, cannot make the decisive difference in the turn-around of economic activity in the major industrial countries.

Table 1. Effect of 1 Percentage Point Increase in the Economic Growth Rate of Individual Industrial Countries on Other Countries

(Percentage changes in GDP)

A. Effect After One Year

Country Leading Growth	Country Affected: U.S.	Canada	Japan	France	Germany	Italy	U.K.
U.S.	1.18	.31	.13	.02	.04	.08	.08
Canada	.08	1.15	.02	.01	.02	.03	.05
Japan	.02	.02	1.18	.00	.01	.01	.02
France	.01	.02	.01	1.21	.04	.07	.04
Germany	.04	.05	.04	.08	.98	.19	.10
Italy	.01	.02	.01	.02	.02	1.30	.03
U.K.	.01	.03	.01	.01	.02	.03	1.24

B. Effect After Three Years

Country Leading Growth	U.S.	Canada	Japan	France	Germany	Italy	U.K.
U.S.	2.58	.86	.40	.06	.14	.31	.35
Canada	.13	.79	.04	.01	.03	.06	.08
Japan	.06	.04	1.50	.01	.02	.03	.06
France	.01	.00	.00	1.22	.06	.11	.04
Germany	.26	.35	.18	.21	1.20	.81	.53
Italy	.05	.03	.03	.04	.05	1.80	.08
U.K.	.05	.05	.03	.02	.04	.08	1.51

SOURCE: Bert G. Hickman "International Transmission of Economic Fluctuations and Inflation" in Ando, Herring, Marston, Editors, International Aspects of Stabilization Policies, June 1974

NOTE: Professor Hickman's work constitutes part of the LINK system.

Table 2. Selected Industrial Countries: Exports as Percent of Domestic Output and as Percent of World Exports

(1970 prices and exchange rates, percentages)

A.	Exports as Percent of GDP		Exports as Percent of World Exports	
	1972	1974	1972	1974
U.S.	4.3	5.6	14.0	14.3
Canada	21.2	20.2	5.8	5.2
Japan	10.8	12.3	7.5	8.0
France	14.0	14.6 a/	6.7	6.9
Germany	19.8	24.3	11.8	13.0
Italy	16.5	16.4	4.8	4.4
U.K.	16.4	18.1	6.4	6.3

B. Expansion Needed in U.S. Imports to Produce a Direct Impact of 1% of GDP based on 1974 Trade Shares

(in percent)

Canada	36.0
Japan	58.3
France	49.0
Germany	29.5
Italy	43.9
U.K.	39.6

a/ 1973

SOURCE: IMF, International Financial Statistics; national sources.

TAB A-3

Economic Activity in Major Industrial Countries

Summary

The current recession differs from previous post-war recessions not only in its breadth and depth, but also in the length of time it is taking for recoveries to materialize. A major factor adding to the climate of uncertainty, which is inhibiting economic recovery, relates to the uncertainties created by the quintupling of the price of oil over the past several years. First, it virtually ensured the simultaneity of the incipient economic slowdowns across countries and thereby deepened the recession. In addition, the need to assess the structural changes that will be required for domestic economies to adjust to the higher cost of energy and the shift of economic power to OPEC cloud the decision-making process of the private sector. These uncertainties, more than anything else, may help to explain the relative slowness with which individual economies appear to be responding to policy measures.

All major industrial countries, with the exception of Great Britain, have taken expansionary measures to stimulate their economies since the beginning of this year. In most cases, the direct effects of the fiscal measures instituted amount to between 2-3 percent of GNP. These measures are additionally supported by monetary policy.

Partly because of the long lags in the response of private demand to the stimulative policy measures and partly for political reasons, a number of countries, notably the European ones, have been looking for export demand to lead them out of

the recession. In particular, they are looking for export-led growth to be sparked by a strong recovery of demand in the United States. For this reason, the sufficiency of fiscal and monetary stimulus built into the U.S. economy at this time is being questioned abroad.

The U.S. economy, however, appears to be well underway towards a sustainable recovery. Industrial production has risen at a seasonally adjusted annual rate of over 13 percent since April; employment is increasing and consumer sales are rising strongly with savings rates returning to more normal levels. Finally, business fixed investment, normally a lagging series, appears to have bottomed out earlier in the recovery than anticipated. Further stimulus to the economy appears to be unnecessary and might even jeopardize the current resumption of economic growth by rekindling inflationary expectations.

Equally important, analysis of the facts regarding the transmission of economic expansion from one country to another shows that somewhat faster growth of the U.S. economy than now expected would do little to help the recovery of others. A percentage point of additional growth of the U.S. economy (over and above what is expected now) is estimated to increase the volume of world trade by only 0.2 - 0.3 percent and would affect the growth of the European economies by less than 0.1 percent each in 1976. Effects on the Japanese and the Canadian economies would be slightly greater, but still not significantly so.

Although little can be expected for world recovery from additional increases in U.S. demand that would remain within reasonable bounds, the effect of the growth in U.S. demand that actually is occurring must not be underestimated. The U.S. economy is moving from a fall in real GNP of about 5 percent between the second quarter of 1974 and the second quarter of 1975, to a rise in real output of between 7 and 8 percent for the 12 months starting in July 1975. Such a shift might expand the volume of world trade by about 3 - 4 percent. The outlook for the Japanese and the German economy is for a similar, although probably rather smaller shift. The simultaneity of these upturns, especially at a time when inventory levels have been drastically reduced, may have very significant effects on world trade. However, the cornerstone of recovery in these three countries the state of internal rather than in that of external demand. A resumption in the growth of external demand may help to quicken the pace of recovery, primarily because of the effect it could have on business confidence, but it cannot make the decisive difference in the turn-around in economic activity in the major industrial countries.

Policy measures have imparted considerable fiscal and monetary stimuli to the various economies. Private sector liquidity positions have improved significantly. Corporations' debt maturities have been lengthened and consumer debt outstanding is at very low levels in relation to disposable incomes. On the whole, it appears that private sector demand is mainly inhibited by confidence factors. With a return of confidence, recovery paths may well become steep, particularly because reflationary actions are being taken simultaneously in many countries -- as they were in 1972. In contrast with the 1972 experience, however, capacity utilization currently is at generally very low levels, so that the emergence of bottlenecks at a very early stage of the recovery is not likely. But, as the recovery proceeds, particularly if it starts from relatively low inventory levels, pressure on some industrial sectors may become severe well before the upswing becomes broad-based and overall capacity utilization reaches more normal levels. For this reason, further simultaneous expansionary actions, such as advocated by some foreign authorities, may prove to be counter-productive in the longer run. The return of confidence needed to carry a broad-based, sustained recovery would be best aided by a stable policy stance. Measures now in place appear sufficient and uncertainties about future policy actions only detract from rather than add to business confidence.

TAB A-4

UNITED KINGDOM

Background. Until this summer Wilson's policies were not effective in curbing runaway inflation in excess of 25% as trade unions rushed for and achieved wage settlements in the area of 30%. Some thought that disruptive effect of such inflation was so serious as to threaten social upheaval. Faced with such problems and resulting massive payments deficits and growing recession, Wilson won trade union agreement in July to limit wage increases for one year with the aim of bringing inflation down to around 10% by the end of 1976. Since then inflation does seem to have slowed somewhat, but unemployment has grown faster, the recession has deepened, and real incomes have declined. Because the inflation inhibits major attempts to stimulate the economy, Britain more than any other major country is counting on a revival of its exports -- in large part to Germany -- to pull it out of the recession and limit the rise in unemployment. The next several months will thus be a difficult period of waiting for the revival of economic activity elsewhere. Wilson can be expected to urge others, especially Germany, to do more to stimulate recovery.

Your Talking Points

-- We are glad Prime Minister Wilson has achieved wide public acceptance, especially by the trade unions, of the need to fight inflation and increase the competitiveness of British industry.

-- We recognize that the adjustments required are painful in terms of higher unemployment and loss of income, but are necessary in the circumstances.

FRANCE

Background. French policies until recently have emphasized reducing inflation and strengthening the balance of payments. However, with unemployment beginning to rise sharply, and production declining, Giscard announced a substantial reflationary program in September. He is counting on the rapid impact of this stimulus - plus strong export demand from other countries, especially Germany - to improve confidence of consumers and investors and bring about a recovery next year. French authorities predict a 4.5% real growth rate. However, the recovery plus wage pressures should push up the inflation rate again which is currently around 8%, and increase the current account deficit which is now about in balance.

Your Talking Points

-- We welcomed President Giscard's efforts to reestablish price stability in the wake of the oil shock and other factors which were feeding inflation.

-- We hope that the French economy will soon turn upward as the result of President Giscard's policy action this fall and the recovery now underway in the US and elsewhere.

GERMANY

Background. Schmidt has pursued expansionary policies since the beginning of the year in order to counter the recession, but recovery is just now beginning. Because of the size of the Germany economy, other European countries hope for a strong recovery in Germany next year to boost their exports and help their own recovery. (To deflect this attention, the Germans in turn, have called for a strong US recovery.) Since the German upturn is occuring later than expected and most forecasts project slow growth next year (2 to 3%), and since inflation rates in Germany are much lower than elsewhere, other European countries have urged -- and may urge at the summit -- that the Germans take further action to expand. There is no need for the US to join in pressing the Germans on this point. Schmidt opposes these pressures, maintaining that the German enonomy will expand at a healthy 5% rate next year, and that the fight agains inflation should be continued.

Your Talking Ponits

-- We are encouraged by the signs that the German economy has begun to move upward again.

-- Chancellor Schmidt deserves great credit for his record in fighting inflation -- the most successful of the major countries. Inflation must be controlled and conquered if we are to keep ourselves strong.

-- Good economic growth is of course also a necessity. It is therefore heartening to hear that the German government forecasts a return to a healthy rate of growth next year.

JAPAN

Background. The recession started earlier in Japan than in other countries and ended sooner. Industrial production started down towards the end of 1973 but has been going up since last March with the exception of a dip in August. Miki's policies have been cautiously expansionary. The fourth reflationary program since the beginning of the recession was announced at the end of August and will take effect in the period between October and March. Inflation which was running at very high levels (over 24% in 1974) has been reduced to about 7% this year. Prospects for next year are for continuation of a moderate rate of recovery with growth rates in the area of 4 1/2%. The trade balance has remained strong, but Japan with its near total dependence on imported oil for energy, will feel the recent OPEC oil price increase to a larger degree than most other countries. Miki and his government believe the economy is going through a delicate adjustment process from the very rapid rates of growth which have prevailed for years to a more moderate long-term growth path.

Your Talking Points

-- Japan has made a successful transition from a bad period of inflation and recession to lower rates of inflation and the resumption of growth.

-- We are confident that Japan can and will continue its transition into a period of sustained, non-inflationary growth.

ITALY

Background. Italian policies have been remarkably successful in reducing the hyperinflation (more than 25%) and massive balance of payments deficits of eighteen months ago which had called into question the creditworthiness of the Italian Government. Limits on credit and public spending have reduced inflation to less than 10% and brought the current account into balance this year. The cost has been a drop in industrial production of 13% over the past year. Restrictive policies have been gradually relaxed since the beginning of the year. A reflationary program was introduced late in the summer to keep unemployment from rising faster, but its impact will only be fully felt next year. Given the dangers of pushing up inflation further, there is little more that Moro and the Italian government can do at present to bring about a faster recovery; like other countries, it is looking to a revival in its exports to help get the economy moving upward again.

Your Talking Points

-- Prime Minister Moro can take pride in his success in stemming the high rates of inflation and large trade deficits that prevailed last year.

-- The revival now underway in the United States and Germany should be helpful in reinforcing the recovery in Italy next year.

ECONOMIC GROWTH

	1974 GNP % Growth	1975 GNP % Growth	1976 Growth (OECD Prediction)	1976 Growth (Country Prediction)
US	(-2.1%)	(-2.9%)	5.4%	7.0%
Germany	0.4	(-4.1)	2.1	5.0
Japan	(-1.8)	1.5	4.5	--
UK (a)	0.2	(-2.3)	(-0.2)	2.4
France (a)	3.9	(-2.0)	2.5	4.5
Italy (a)	3.2	(-4.5)	1.0	2.0

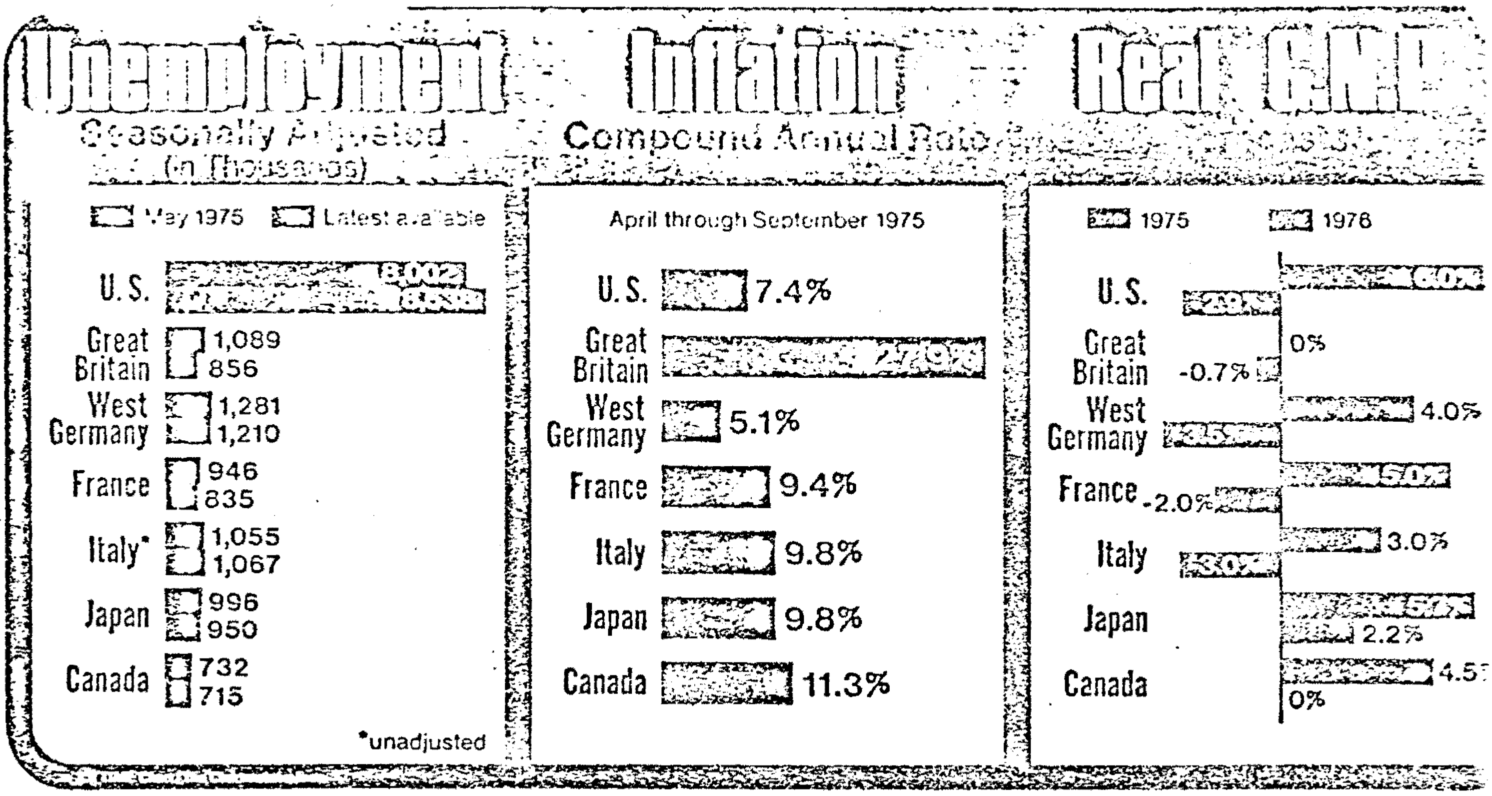
INFLATION

	1974	1975	1976 (OECD Prediction)	1976 (Country Prediction)
US	11.4%	8.3%	7.1%	5.9%
Germany	7.0	6.0	4.0	4.5
Japan	24.4	11.7	5.6	--
UK (a)	15.1	21.6	16.7	11.3
France (a)	13.7	11.6	10.6	8.4
Italy (a)	19.1	16.8	12.0	12.0

UNEMPLOYMENT

	1974 Fourth Quarter	1975 Second Quarter	Latest	
US	6.6%	8.9%	8.3%	September
Germany	3.5	4.9	5.8	August
Japan	1.6	1.8	1.9	August
UK	2.7	3.6	4.4	September
France	2.8	3.8	3.9	August
Italy (b)	3.9	5.2	4.3	July

(a) Gross Domestic Product
(b) Unemployment plus 50% of partial unemployment.



"economic situation as this one." Nonetheless, output is expected to rise 2.2% this year and 5.7% in 1976. That follows Japan's first genuine postwar recession, which was brought on by a government clampdown on demand and last year after the explosion in oil prices sent Japanese inflation soaring to a frightening annual rate of 25%. As domestic demand fell, Japan's aggressive businessmen swiftly expanded foreign sales, helping to right their economy but annoying such hard-pressed trading partners as the U.S., Britain and France. Last year alone Japan increased its exports over the year before by 50%, to $58 billion. And this year, despite the slack in global trade, it expects to export another $57 billion.

With the inflation rate cut to less than half, the government has started a program to stimulate home demand: it has authorized $6 billion in additional spending for public works and housing, and lowered the central-bank interest rate from 9% last year to 6.5%. Businessmen insist that that is not enough, and they do have some problems. An expert at the Fuji Bank estimates that one out of every four of Japan's debt-laden companies is operating in the red, and in a nation where unemployment has been almost unknown, some university seniors face trouble getting a job. One survey of 1,586 corporations found 511 planning not to hire new graduates next year.

CANADA has long taken the rather smug and unrealistic position that no matter what difficulties were encountered by other countries, its economy, based on a wealth of natural resources such as oil, uranium and timber, would be immune. By September, however, Prime Minister Trudeau confronted mounting evidence that Canada was in deep economic trouble. The country was in recession, the jobless rate had climbed to 7.2%, inflation was running at a compound annual rate of 12.7%, and wage increases were sprinting at an annual rate of 18.8%—twice that of the U.S. On Oct. 13, Trudeau announced to a surprised nation the imposition of selective wage-price controls. Labor unions immediately protested and vowed to take their case against controls to court. More thoughtful critics agree that controls will probably help dampen inflation. But, asks a senior economist of the Bank of Canada, "what about the rest of the problems?" Trudeau has so far failed to offer any policy to expand production or reduce joblessness.

Despite its own domestic problems, the U.S. cannot afford to ignore the weak state of its trading partners' economies. Magnanimity apart, continuing recession in Europe and Canada, which provide important markets for American goods, is certain to impede U.S. trade and the recovery in general. In addition, the global downturn cuts directly into the profits of a growing number of American-based companies that get more than half of their earnings from foreign operations. Among them are such familiar names as Pfizer, Gillette, Hoover, Johnson & Johnson, Scholl, J. Walter Thompson, F.W. Woolworth, Dow Chemical, Avis, International Harvester, and Black & Decker.

Fundamentally, the opportunities for coordination of international economic policy are limited. There is no magic formula for determining how rapidly a nation can stimulate its economy without kindling ruinous inflation, or how hard it can crack down on inflation without bringing on a recession. For the moment, at least, every government has to grapple with that problem on its own, by what might as well be recognized as a process of trial and error. So long as that is so, national economic policies are bound to differ.

But if the opportunities for cooperation are limited, they are not negligible. The U.S., for example, might reconsider its stand on exchange rates. While nobody wants to go back to rigidly fixed exchange rates, some agreed rules to stabilize world money markets are needed. In addition, governments can at least try to avoid policies that hurt their neighbors—for example, subsidizing exports and discriminating against imports enough to give one nation an unfair advantage in world trade. The significance of the Rambouillet summit is that heads of government are no longer leaving such questions to their economic advisers, but tackling them in person. The summit thus could usefully be followed by further similar meetings.

8

the board's gingerly move toward expansion, interest rates are inching down. banks' prime rate on loans to blue-chip corporations has dropped from 8% to 7¼% in the past eight weeks. Heller believes that as the economy rebounds, the Federal Reserve will be forced to take an even more accommodating position, and will expand money supply as much as 8½% a year.

The newest and most immediate worry is the impact of a default by New York City, which could happen practically any day now. President Ford, who has vowed to veto any congressional attempt to help the city avoid bankruptcy, insists that financial markets have already discounted a default and so the impact could be contained without serious damage to the economy.

He is disputed by a host of critics who fear that a default could abort the recovery. Robert Nathan, a member of TIME's Board of Economists, says that if New York goes under, the shock waves in money markets will drive up borrowing costs for many states and municipalities, forcing them to cut services and spending and hike taxes, and drastically harm the economy. A New York bankruptcy would also wipe out much of the value of $2 billion worth of city securities held by banks round the country. Though the Federal Reserve has pledged to lend the banks enough money to keep them from closing, they might have to curtail their lending to business. Much of the remaining $11.5 billion in city securities is held by individuals, who would suffer serious losses of principal and interest and thus have their buying power reduced.

All together, Otto Eckstein estimates, default would eventually cost the nation a disastrous $14 billion in lost production and 500,000 jobs. The effect would be greatly magnified if New York State followed the city into default—and unfortunately that is much more than a remote possibility. Basically, the effects of a New York City bankruptcy are immeasurable, since the situation would be unprecedented. But many economists believe the risk is too great to be worth taking. Says Heller: "No one knows how to judge a New York City default on a Richter scale of financial earthquakes, but we should try to handle it without testing the repercussions."

If the U.S. recovery has its flaws, problems and worries, it still is strong enough to excite the envy of most other industrial nations. Generally, the recession hit them later and less severely than the U.S., but it is lingering longer. One major reason is that these nations generally are far more dependent on foreign trade than the U.S., and more sensitive to their neighbors' troubles. Exports account for only 7% of gross national product in the U.S. but 19% in Britain, 12% in Japan, 23% in Germany, 23% in Canada and no less than 50% in Belgium. The situation in detail in the most important nations:

BRITAIN, the industrial world's perennial postwar invalid, continues to languish. Output this year will be a bit below that of 1974, and Common Market experts predict zero growth next year as well. Meanwhile, exports are sluggish and living standards are dropping. Unemployment has passed the politically sensitive level of a million workers and could hit 1.5 million this winter. Prime Minister Wilson's Labor Government can do little to stimulate the economy because inflation, despite price controls, is already roaring along at an annual rate of 27.9%, highest in any major nation.

Britain's big hope remains a flood of oil wealth from under the North Sea in the 1980s. To dramatize it, Queen Elizabeth last week ceremonially pressed a button permitting oil from the first major field to flow into Britain. To muddle through until then, Wilson last week announced a program of aid to 30 industries selected for their promise of growth—but failed to say which ones they will be, whether the aid will consist of subsidies or loans or how much cash the government will put up. Until such details are spelled out, the program is little more than an overdue government promise to be more sympathetic in dealing with industry.

GERMANY, Western Europe's most influential economy, seems to be caught in a web of indecision. Despite some signs of recovery in recent months, the nation this year will suffer its steepest decline in output, about 3%, since the founding of the Federal Republic after World War II. The forecast for next year calls for real growth in G.N.P. of about 4%. But the upturn is beginning from such a low base—German industry today is operating at only 75% of capacity —that even with that relatively healthy advance the economy will be operating well below optimum levels. The unemployment rate has risen to 4.4%, and could well go higher this winter. In Germany, that is high enough to raise grim memories of the '20s and '30s, when legions of jobless workers flocked to Fascism.

The rate of inflation is now only 5.1%, a pace that would allow the Schmidt government to move to more stimulative policies. But so far Bonn has held back, contending that to follow a more vigorous course would only risk reigniting German inflation without doing much to boost demand in the depressed economies of its chief trading partners —a rather Ford-like position. Though the government has made some stabs at stimulation with investment grants, tax cuts and a highway spending program, German businessmen continue to hold down capital spending. Jittery German consumers are also saving an inordinate amount of their disposable income, so the economy remains sluggish.

FRANCE has moved ahead of all its Common Market neighbors in its anti-recession efforts. Its actions follow a year-and-a-half battle to curb inflation. By September, however, it was obvious that the nation's output would show a decline of more than 2% this year. At that point, President Giscard ordered almost $7 billion pumped into the economy in the form of investment subsidies, corporate tax breaks and public works programs. As a result, France should have the most vigorous recovery in Europe next year.

Already some movement is apparent. Industrial production has increased slightly, and construction contracts and auto sales are up. Unemployment, though, continues to grow, and last week, by one estimate, reached an explosive 1 million, touching off a rash of strikes by angry workers at post offices, subways and electric utilities. Riot cops were called to sweep Air France employees out of ground facilities at the Paris airports, where they were staging a sit-in strike. Giscard's policy has also spurred consumer-price inflation, which inched up to an annual rate of 9.4% in September, almost a percentage point over that of a month before.

ITALY, which only last year seemed to be on the brink of collapse, is haltingly making its way back. Its output this year will probably show a decline of 3%. Industrial production is running 10% or more below a year ago, and the country's factories are operating at less than 70% of capacity. Unemployment now stands at 1.1 million and could go as high as 1.7 million next year. That is the price the country has had to pay to get down its ruinous rate of inflation —which has fallen from 24% last year to 9.8% in September—and repay its foreign debt. With prices moving more slowly, Prime Minister Moro's government has recently enacted a $6 billion recovery program, and there is a good chance that the Italian economy will begin to climb slowly in mid-1976. The pace of any economic *risorgimento* will depend on two things: whether the often inefficient bureaucracy can get the expansionary program moving quickly enough, and the level of wage increases that will emerge from the current round of national labor-union contract negotiations for 4.5 million workers.

JAPAN is on the road back to prosperity, though no one would think so after listening to the hand-wringing comments of its government and business leaders. Prime Minister Miki laments that "never before have we experienced so complex and difficult an

7

CONTINUED

Economic Activity in Major Industrial Countries
Background and Analysis to Support U. S. Position

The current recession appears to differ from previous post-war recessions not only in its breadth and depth, but also in the length of time it is taking for recoveries to materialize. A major factor inhibiting economic recovery is the uncertainty created by the quintupling of the price of oil over the past several years. It ensured the simultaneity of the economic slowdowns in many industrial economies. Moreover, structural changes necessary to adjust to the increased cost of energy plus the transfer of economic power to OPEC have generated further uncertainties.

True, recovery appears to be in train in the United States, Japan and Germany and, in other major economies, except for the British, the recession probably touched bottom sometime during the summer. But the underlying strength of any upturn in activity remains uncertain and is contingent upon the restoration of confidence in the private sector. Concern over the apparent failure of their respective economies to respond visibly to the expansionary measures taken since the beginning of the year led four of the major foreign countries (Japan, Germany, France and Italy) to take further reflationary moves at the end of the summer. These actions reflected the fact that there were little, if any, signs of quickening in the pace of economic activity during the summer months. (See Table 1.)

The nearing completion of the inventory adjustment is lending some support to economic activity in a number of countries, but final demand remains weak almost everywhere, except perhaps in Canada, where, however, latest indicators also point to a faltering trend. Household savings rates have risen to historic highs -- reflecting continuing uncertainties about the employment outlook and price prospects, as well as the desire to rebuild asset positions -- so that the consumption-led upswing hoped for in a number of countries has not materialized. (See Table 2.) In fact, retail sales, which had increased earlier in the year, appear to have flattened out during the second quarter and have remained about stable since. With growing unemployment -- now approaching twice the number registered in 1974 on average in Western Europe -- threatening depletion of income maintenance funds, and a renewed ratcheting up of food and energy prices, lack of confidence may continue to exert a significant restraining influence on the growth of private consumption expenditures in coming months. (See Tables 3, 4, and 4a.)

At the same time that private consumption expenditures have failed to impart the upward impetus to economic activity hoped for earlier, external demand has fallen. The absolute fall in the volume of world trade -- the first in post-war history -- which began in the second half of last year, mainly results from a substantial shrinkage in trade among industrial countries. Imports of major industrial countries began to shrink in the fall of last year reflecting both weak final demand and the inventory adjustment. In value terms, they were down by 7-1/4 percent between the second half of 1974 and the first half of 1975, and in volume terms they fell by 11 percent. (See Table 5.)

Exports, while remaining above 1974 levels in value terms, have fallen since the spring of this year, although less than imports. Exports to OPEC and Communist countries have continued to grow and shipments to non-oil LDC's have been reduced relatively little. The fact that a large number of non-oil LDC's have been able to maintain their import levels reflects their earlier much-above average earnings level, which prevailed well into 1974, and the extension of large trade credits by industrial countries seeking to bolster their export activity as domestic demand shrank.

A number of small industrial countries as well as several larger ones have been counting on an export-led recovery with strong demand coming from the U.S. economy in particular. However, analysis indicates that further reflationary action -- within reasonable bounds -- in the United States would do very little towards accelerating recovery abroad. (See Transmission paper.)

In coming months, trade among industrial countries may resume its growth once more. Indeed, import demand in the large industrial countries appears to have stabilized during the summer months. But increases in world trade are likely to be constrained by a slowing in the import demand of OPEC and declines in shipments to non-oil LDC's. The latter may begin to find it more difficult to finance continued high levels of imports. True, the slide in their shipments to the larger industrial countries appears to have halted in recent months, but the fall in commodity prices of past months has yet to be reflected fully in earnings figures. In addition, debt burdens are mounting. Thus, external financing difficulties may force a curtailment of order activity on the part of the non-oil LDC's. In fact, similar problems are arising in smaller OECD countries, who were able to maintain demand levels well into 1974 and early 1975. In addition, fragile external financing positions will be aggravated by the recent increase in OPEC's export price of oil as it begins to work through the individual economies. The oil exporting countries themselves may continue to expand their import demand. However, growth rates are likely to be much reduced, not only because they are being computed from a much higher base than in 1973-74 but also because of physical as well as emerging financial constraints in the high-import absorbing countries, such as Indonesia and Iran. Recent data show, indeed, a significant reduction in the rate of growth of export flows to the oil producing countries as a group.

Hesitant private consumption and falling external demand, although partially offset by some increase in public expenditures, have combined to bring about further reductions in capacity utilization in most countries. Consequently, private investment intention surveys, until recently, have shown continuous downward revisions of projected expenditures for the current year. Latest opinion surveys indicate that the erosion of business confidence may have come to a halt, but no strong support to activity can be expected from the side of private investment expenditures over the next several quarters. The one relatively bright spot in the private demand situation is the positive, albeit slow, response of residential construction activity to easier monetary policy and to direct fiscal programs.

A further encouraging development has been the moderation of price increases, which has been dramatic in a number of countries in comparison with last year's performance. (See Tables 6 and 7.) But progress on the price side appears to have come to a halt at levels of price increases that remain uncomfortably high. (In the United Kingdom price pressures have continued to be intolerably high.) Higher food and energy prices and attempts at an early restoration of profit margins all are now putting pressures on price levels well before the productivity gains that will accompany a resumption of growth in activity can act to relieve cost pressures.

The results of wage negotiations have been encouraging in recent months from a cost-pressure point of view, except in Canada and the United Kingdom.1/ (See Table 8.) But

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1/ Because of the alarming rise in cost pressures programs restraining wages have been instituted both in Canada and the United Kingdom. In Canada, prices are being controlled as well. See country notes for details.

upcoming wage rounds may be more difficult to contain if inflationary expectations revive. A resumption of inflationary tendencies at a time when activity rates still remain flat, budget deficits are rising and long-term interest rates are still relatively high, could well put an additional brake on what appears to be a slow recovery in most countries.

Governments, in response to the continued weakness of domestic demand, have moved to put into effect additional reflationary measures. Since mid-year, discount rates have been cut in most major countries, and fiscal stimuli of varying degrees have been announced in Canada, Italy, Germany, France and Japan. The Canadian budget represented a continuation of an essentially mild expansionary policy stance, but the Italian package indicated a shift from major concern with inflation and external financing problems to concern with rising unemployment. A substantial recovery in Italy -- before a resumption in the growth of world trade -- could bring about a reemergence of the balance of payments problem as import growth might well outpace export gains, despite the fact that about one-third of the reflationary package aims at stimulating exports. The German measures concentrated mainly on public works and an extension of unemployment assistance payments. In France, reflationary measures largely emphasized subsidies to private investment, public investment and increases in transfer payments. The Japanese authorities announced a reflationary fiscal program consisting to a large extent of new expenditures for public works and to a lesser extent of aids to medium and small-sized business.

Thus, considerable fiscal and monetary stimuli have been built into the various economies. The reflationary packages, excluding multiplier effects, announced at the end of the summer amount to roughly 3 percent of GNP in Italy, and to 2-1/4 percent, 1-1/2 percent and 1/2 percent of GNP in France, Japan and Germany, respectively. And these measures are in addition to steps taken during the first half of this year. The large budget deficits foreseen in most countries are partly cyclically determined, but even on a high employment basis the shift in fiscal policy is substantial. Monetary policy has been eased almost everywhere and interest rates, notably short-term rates, have come down substantially. (See Tables 9 and 10.)

The easing of monetary conditions has had external as well as domestic effects. Because policy moves lagged behind those effected in the United States, the downward move in interest rates abroad has led to a reversal in the

interest rate differentials -- at least until recently --
between the United States and other financial centers. This has resulted in capital flows to the United States, which also have been strengthened by the relatively better economic news here than abroad and by the continued high U.S. trade surplus. Consequently, since mid-year, the U.S. dollar has appreciated by about 6 percent against a weighted average of major foreign currencies. (See Table 11.) The fall in the exchange value of individual foreign currencies is putting some strain on domestic price levels because many foodstuffs and industrial materials, including petroleum, are priced in dollar terms. For this, and other reasons, some Governments are moderating the downward drift of their currencies in foreign exchange markets, partly through intervention policies, partly by actions designed to curb capital outflows and partly by plans to borrow abroad to cover fiscal deficits (e.g., Japan, Germany and partly Britain). Others have preferred to accept the price pressures resulting from the depreciation of their currencies because they have welcomed the effects these currency changes will have on their trade balances (e.g., France, Italy and partly Britain).

On the domestic side, private sector liquidity positions have improved significantly as a result of easier monetary conditions and fiscal actions to increase private disposable incomes. Corporations' debt maturities have been lengthened, and consumer debt outstanding is at very low levels in relation to disposable incomes. Thus, growth of private sector demand seems to be mainly inhibited by confidence factors. With a return of confidence, recovery paths may well become steep, in particular because reflationary actions are being taken simultaneously in many countries -- as they were in 1972. In contrast with the 1972 experience, however, capacity utilization currently is at generally very low levels, so that the emergence of bottlenecks at a very early stage of the recovery is not likely. But, as the recovery proceeds, particularly if it starts from relatively low inventory levels, pressure on some industrial sectors may become severe well before the upswing becomes broad-based and overall capacity utilization reaches more normal levels. For this reason, further simultaneous expansionary actions, such as advocated by some foreign authorities, may prove to be counterproductive in the longer run.

Table 1. INDUSTRIAL PRODUCTION IN SELECTED INDUSTRIAL COUNTRIES
(SEASONALLY ADJUSTED)
LINE A: PERCENTAGE CHANGES FROM PRECEDING 3-MONTHS (ANNUAL RATE)
LINE B: PERCENTAGE CHANGES FROM SAME PERIOD PREVIOUS YEAR

COUNTRY		1973 Q3	1973 Q4	1974 Q1	1974 Q2	1974 Q3	1974 Q4	1975 Q1	1975 Q2	1975 LATEST 3-MONTHS	1975 LATEST MONTH
BELGIUM	A.	3.6	7.2	7.1	5.8	5.7	2.2	-5.4	-11.0	-11.0	JUNE
	B.	6.9	6.8	6.0	5.9	6.5	5.2	2.0	-2.3	-2.3	
FRANCE	A.	6.3	-2.2	12.6	1.1	4.3	-25.5	-10.9	-11.2	-1.2	AUG.
	B.	7.6	4.6	6.2	4.4	3.8	-3.0	-8.5	-11.4	-13.3	
GERMANY	A.	-1.2	6.1	0.0	-2.3	-8.0	-10.4	-12.9	-6.3	-6.3	AUG
	B.	7.0	4.6	1.2	0.6	-1.2	-5.3	-8.5	-9.4	-8.7	
ITALY	A.	22.4	7.9	12.2	-3.4	-11.4	-27.6	-4.1	-5.3	-8.8	JULY
	B.	15.8	12.1	16.5	9.4	0.9	-8.7	-12.2	-12.6	-12.9	
NETHERLANDS	A.	9.5	6.1	3.3	-1.1	7.9	-12.3	-12.7	-8.9	-7.9	JULY
	B.	6.6	6.1	6.4	4.9	4.5	-0.6	-4.9	-6.6	-6.1	
UNITED KINGDOM	A.	4.1	-4.3	-19.6	17.6	1.6	-11.1	-2.5	-15.9	-7.2	AUG
	B.	6.9	3.5	-5.6	-1.5	-2.1	-3.8	-1.1	-7.2	-6.6	
JAPAN	A.	7.1	10.7	-4.9	-10.4	-14.2	-21.9	-29.6	17.1	16.7	AUG
	B.	16.1	13.6	6.7	0.3	-5.2	-13.1	-19.4	-13.8	-9.6	
CANADA	A.	-2.6	10.1	10.0	-3.6	-4.7	-5.0	-10.7	-2.6	-3.6	JULY
	B.	8.6	6.2	5.4	3.3	2.7	-1.0	-6.1	-5.8	-5.6	
UNITED STATES	A.	5.9	1.1	-6.6	1.9	-0.1	-12.5	-28.3	-4.5	14.4	SEPT
	B.	8.9	5.7	1.4	0.5	-1.0	-4.5	-10.6	-12.0	-9.0	

SOURCES AND DEFINITIONS: BELGIUM, FRANCE, GERMANY, ITALY, NETHERLANDS, CANADA: ALL INDUSTRIES EXCLUDING CONSTRUCTION; UNITED KINGDOM: ALL INDUSTRIES; JAPAN, MINING AND MANUFACTURING; U.S., MINING, MANUFACTURING AND UTILITIES. BELGIUM, BULLETIN OF THE BANK OF BELGIUM; FRANCE, MONTHLY BULLETIN OF STATISTICS; GERMANY, SERIES 4, STATISTICAL SUPPLEMENT TO THE MONTHLY REPORT OF THE BUNDESBANK; ITALY, CONGIUNTURA ITALIANA, SEASONALLY ADJUSTED FRB; NETHERLANDS, NETHERLANDS BANK; UNITED KINGDOM, ECONOMIC TRENDS; JAPAN, ECONOMIC STATISTICS MONTHLY; CANADA, BANK OF CANADA REVIEW; UNITED STATES, FEDERAL RESERVE BULLETIN.

SOURCE: Federal Reserve Board

Table 2. Household Savings as Percent of Disposable Income in Selected Industrial Countries

	1969	1970	1973	1974	1st half 1975 1/
United States	6.0	8.1	8.2	7.9	9.0
Japan	19.5	20.7	24.1	25.6	27
United Kingdom	8.4	9.3	11.3	12.1	12-1/2
W.Germany	12.5	13.5	13.6	14.7	17

1/ Partially estimated

SOURCE: National sources.

Table 3. Food Component of Consumer Price Index for Selected Industrial Countries
(Not Seasonally Adjusted)
Line A: Percentage Changes from Preceding 3-months (Annual Rate)
Line B: Percentage Changes from Same Period Previous Year

Country		1973 Q3	1973 Q4	1974 Q1	1974 Q2	1974 Q3	1974 Q4	1975 Q1	1975 Q2	Latest 3 months	Latest month
Belgium	A.	..	..	11.9	13.0	12.2	7.9	10.0	11.6	13.2	July
	B.	..	..	..	..	..	11.2	10.7	10.4	10.3	
France	A.	11.9	12.6	12.5	15.4	10.0	11.4	10.5	13.1	12.0	July
	B.	10.3	10.6	12.3	13.1	12.7	12.4	11.9	11.3	11.2	
Germany	A.	-2.4	2.4	9.8	8.1	-1.9	3.6	7.9	12.9	12.8	July
	B.	7.1	5.6	5.4	4.4	4.5	4.8	4.4	5.5	6.1	
Italy 1/	A.	9.1	8.2	19.7	18.7	42.9	34.8	16.1	11.7 3/		May
	B.	12.7	11.8	13.6	13.8	21.8	28.7	27.7	25.8	..	
Netherlands	A.	4.8	7.1	8.3	2.9	7.8	14.0	4.9	8.5	10.0	July
	B.	7.5	6.5	7.2	5.8	6.5	8.2	7.3	8.8	8.9	
United Kingdom 2/	A.	4.9	17.2	22.6	16.2	8.6	24.6	33.7	41.2	32.0	July
	B.	11.1	13.5	15.5	15.1	16.1	17.9	20.4	26.4	27.3	
Japan	A.	11.9	18.2	66.3	14.6	21.7	20.9	12.0	11.4	5.1	July
	B.	13.6	17.1	27.9	26.0	28.7	29.4	17.2	16.4	15.0	
Canada	A.	20.5	8.0	15.7	18.1	16.4	14.5	9.2	9.8	18.5	July
	B.	13.8	15.4	14.9	15.5	14.5	16.2	14.5	12.4	13.0	
United States	A.	25.4	10.8	19.7	6.9	8.6	13.0	8.2	3.0	13.7	Aug.
	B.	17.3	19.5	19.3	15.5	11.4	12.0	9.2	8.1	9.8	

1/ VAT was introduced January 1, 1973.
2/ VAT was introduced April 1, 1973.
3/ April-May only.

Table 4. REGISTERED U[illegible]MENT AND UNFILLED VACANCIES FOR M[illegible] INDUSTRIAL COUNTRIES
(Thousands, monthly averages, seasonally adjusted)

	1972	1973	1974	1974 QI	1974 QII	1974 QIII	1974 QIV	1975 QI	1975 QII	1975 Apr.	1975 May	1975 June	1975 July	1975 Aug.	1975 Sept.
France															
a. Vacancies	165	252	204	232	239	202	144	129	105	106	106	103	103	103	
b. Unemployment 1/	380	394	493	441	443	474	615	731	837	797	835	870	865	864	832
a/b	0.43	0.64	0.41	0.53	0.54	0.43	0.23	0.18	0.13	0.13	0.13	0.12	0.12	0.12	
Germany															
a. Vacancies 2/	540	569	316	366	340	301	257	265	245	250	240	228	222	213	
b. Unemployment 2/	248	276	602	433	528	656	790	841	1123	1071	1186	1270	1310	1335	1336(e)
a/b	2.21	2.06	0.52	0.85	0.64	0.46	0.32	0.32	0.22	0.23	0.20	0.18	0.17	0.16	
Italy															
a. Unemployment 3/	696	669	560	548	528	556	604	553	727						
b. Vacancies N.A.															
Great Britain 1/															
a. Vacancies	146	304	298	235	309	306	284 4/	189 4/	157	173	156	141	129	134	135
b. Unemployment	816	581	573	543	552	600	605 4/	701	813	760	817	864	938	967	9?7
a/b	0.18	0.52	0.52	0.52	0.56	0.51	0.47 4/	0.27 4/	0.19	0.23	0.19	0.16	0.14	0.14	0.14
Canada															
a. Unemployment 5/	562	520	525	520	509	520	549	683	719	717	715	725	724	736	
b. Vacancies N.A.															

1/ Unfilled applications.
2/ End-of-month figures.
3/ Data are for months of January, April, July, and October.
4/ The quarterly figures for 1974 and 1974-QIV do not include December data, which were not compiled because of a labor dispute among British civil servants. For the same reason no data for Vacancies for January 1975 are available, and the 1975 QI figure is based on February-March only.
5/ Sample survey taken in mid-month week; not a "registered unemployment" figure.
Sources: France, Monthly Bulletin of Statistics; Germany, Statistical Supplement to Monthly Report of the Bundesbank, Series [illegible]; Italy, OECD [illegible] Economic Indicators; Great Britain, Economic Trends; Canada, Statistics Canada, The Labor Force.

SOURCE: Federal Reserve Board

Table 4a--Seasonally Adjusted Unemployment Rates of Selected Industrial Countries, Adjusted to U.S. Concepts

Period	U.S.	Canada	Japan	France 1/	Germany 1/	Great Britain 1/	Italy 2/
1973	4.9	5.6	1.3	2.7	1.0	3.0	3.8
I	5.0	5.9	1.3	2.6	.8	3.4	3.9
II	4.9	5.4	1.4	2.6	.9	3.1	4.6
III	4.8	5.5	1.2	2.7	1.1	3.0	3.5
IV	4.7	5.5	1.2	2.8	1.3	2.5	3.4
1974	5.6	5.4	1.4	3.1	2.1	3.0	3.1
I	5.1	5.4	1.3	2.8	1.5	2.8	3.0
II	5.1	5.3	1.3	2.8	1.9	2.8	3.0
III	5.5	5.4	1.4	2.9	2.4	3.1	3.1
IV	6.6	5.6	1.7	3.8	2.9	3.2	3.3
975							
I	8.3	7.0	1.7	4.6	3.1	3.5	3.0
II	8.9	7.3	1.8	5.2	4.1	4.3	4.0
III	8.4	7.2	2.0e	5.5	4.8	5.6	3.6

1 eliminary estimates based on incomplete data.

2/ Quarterly rates for Italy are for the first month of each quarter.

SOURCE: Bureau of Labor Statistics.

Table 5. Merchandise Trade of Selected Industrial Countries
(In billions of U.S. dollars at seasonally adjusted annual rates) 1/

				1974				1975		1975		
		1973	1974	I	II	III	IV	I	II	July	Aug.	Sept.
France	exports	36.6	46.6	42.2	45.9	48.7	49.7	54.7	54.5	55.7	51.8	49.8
	imports	35.2	50.1	44.9	50.2	53.1	52.0	53.0	50.0	53.3	48.4	49.4
	balance	1.5	-3.4	-2.7	-4.3	-4.4	-2.3	1.8	4.5	2.4	3.4	0.4
Germany	exports	67.7	89.4	81.4	90.3	91.8	94.1	92.8	93.4	92.5	80.4	
	imports	55.0	69.8	60.4	70.2	74.1	74.6	72.9	76.3	74.5	71.8	
	balance	12.7	19.6	20.9	20.1	17.7	19.5	19.9	17.0	18.0	8.6	
Italy	exports	22.2	30.1	26.3	28.6	33.1	32.3	34.3	34.0	36.6		
	imports	27.9	40.9	37.1	40.2	44.8	41.5	36.5	36.2	39.3		
	balance	-5.7	-10.9	-10.8	-11.6	-11.8	-9.2	-2.2	-2.2	-2.7		
U.K.	exports	28.2	36.5	31.9	37.4	39.1	37.5	43.7	40.8	40.5	37.9	39.1
	imports	33.8	48.8	43.6	50.0	50.5	51.1	50.6	45.2	48.2	47.3	44.4
	balance	-5.6	-12.3	-11.7	-12.6	-11.4	-13.5	-6.9	-4.4	-7.7	-9.4	-5.3
Canada	exports	25.4	33.1	31.2	32.4	34.5	34.3	31.9	31.8	31.0	30.6	
	imports	22.7	31.5	28.1	30.2	33.6	34.3	34.0	32.6	31.0	34.5	
	balance	2.7	1.6	3.2	2.2	0.9	-0.1	-2.2	-0.8	0	-3.9	
Japan	exports	36.3	54.4	44.2	55.2	57.1	61.2	58.7	54.5	52.2	51.4	
	imports	32.6	52.8	49.1	55.3	53.5	53.2	50.7	46.5	48.2	46.7	
	balance	3.7	1.7	-4.8	-0.1	3.6	8.0	8.0	8.0	4.0	4.7	
TOTAL	exports	216.4	290.1	257.2	289.9	304.3	309.1	316.1	309.0	308.5		
	imports	207.2	293.9	263.2	296.1	309.6	306.7	297.7	286.8	294.5		
	balance	9.3	-3.7	-5.9	-6.3	-5.4	2.4	18.4	22.1	14.0		
U.S.	exports	71.4	98.3	89.3	96.3	100.3	106.0	107.7	101.6	106.6	108.0	
	imports	70.4	103.8	86.2	99.5	107.5	108.0	99.3	88.2	94.9	95.5	
	balance	1.0	-5.5	3.1	-3.2	-7.2	-2.0	8.4	13.4	11.7	12.5	

Note: U.K., Canada, Japan and U.S. trade on a balance of payments basis; others on a customs basis. Imports cif for Germany and Italy; fas for the U.S.; otherwise fob. Details may not add to totals due to rounding.

1/ Data converted to dollars on the basis of average exchange rates as published in the Federal Reserve Bulletin.

Table 6. CONSUMER PRICES FOR SELECTED INDUSTRIAL COUNTRIES
(NOT SEASONALLY ADJUSTED)
LINE A: PERCENTAGE C[illegible] FROM PRECEDING 3-MONTHS (ANNUAL RATE)
LINE B: PERCENTAGE C[illegible] FROM SAME PERIOD PREVIOUS YEAR

COUNTRY		1973	1974				1975			1975	
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	LATEST 3-MONTHS	LATEST MONTH
BELGIUM	A.	8.2	14.5	17.8	18.0	13.2	12.0	11.0	9.4	9.4	SEPT
	B.	6.9	8.5	11.5	14.7	15.9	15.2	13.5	11.4	11.4	
FRANCE	A.	11.4	15.8	17.2	14.0	13.1	11.6	10.1	N.A.	9.2	AUG
	B.	8.3	11.3	13.6	14.6	15.0	13.9	12.2		11.3	
GERMANY	A.	8.1	9.9	6.7	3.7	5.6	7.7	7.8	3.1	3.1	SEPT
	B.	7.3	7.4	7.1	7.1	6.5	5.9	6.2	6.1	6.1	
ITALY 1/	A.	11.2	23.2	22.4	26.2	27.1	14.7	11.7	N.A.	9.5	AUG
	B.	11.7	14.5	16.4	20.6	24.7	22.5	19.7		17.1	
NETHERLANDS	A.	9.7	10.0	12.6	7.4	13.7	8.7	11.6	8.2	8.2	SEPT
	B.	8.0	8.7	8.8	9.9	10.9	10.5	10.3	10.5	10.5	
UNITED KINGDOM 2/	A.	14.5	17.6	26.0	10.4	19.2	26.4	23.5	N.A.	30.9	AUG
	B.	10.3	12.9	15.9	17.0	18.2	20.3	24.3		25.4	
JAPAN	A.	13.3	43.0	21.4	14.7	18.1	6.0	17.1	3.6	3.6	SEPT
	B.	15.1	22.0	22.1	22.6	23.8	14.9	13.9	11.0	11.0	
CANADA	A.	7.4	10.1	13.7	12.7	11.4	9.0	9.0	14.0	14.4	SEPT
	B.	9.0	9.7	10.7	11.0	12.0	11.7	10.5	10.9	10.9	
UNITED STATES	A.	9.7	11.7	11.8	12.8	12.2	7.5	6.4	N.A.	8.7	AUG
	B.	8.4	9.9	10.6	11.5	12.1	11.0	9.7		9.2	

1/ VAT WAS INTRODUCED JANUARY 1, 1973.
2/ VAT WAS INTRODUCED APRIL 1, 1973.

SOURCES AND DEFINITIONS: BELGIUM, NETHERLANDS, ALL ITEMS, OECD MAIN ECONOMIC INDICATORS; FRANCE, RETAIL PRICES, ALL ITEMS, MONTHLY BULLETIN OF STATISTICS; GERMANY, COST OF LIVING INDEX, ALL ITEMS, MONTHLY REPORT OF THE BUNDESBANK; ITALY, GENERAL INDEX, CONGIUNTURA ITALIANA; UNITED KINGDOM, RETAIL PRICES, ALL ITEMS, MONTHLY DIGEST OF STATISTICS; JAPAN, ALL ITEMS (TOKYO), ECONOMIC STATISTICS MONTHLY; CANADA, ALL ITEMS, BANK OF CANADA REVIEW; UNITED STATES, ALL ITEMS, U.S. BUREAU OF LABOR STATISTICS.
SOURCE: Federal Reserve Board

Table 7 GENERAL WHOLESALE PRICES FOR SELECTED INDUSTRIAL COUNTRIES
(NOT SEASONALLY ADJUSTED)
LINE A: PERCENTAGE CH FROM PRECEDING 3-MONTHS (ANNUAL RATE)
LINE B: PERCENTAGE CH FROM SAME PERIOD PREVIOUS YEAR

COUNTRY		1973	1974				1975			1975	
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	LATEST 3-MONTHS	LATEST MONTH
BELGIUM	A.	12.2	39.2	14.5	2.2	1.1	-4.9	-0.9	N.A.	2.7	AUG
	B.	13.6	18.6	19.2	16.3	15.3	3.0	-0.7		0.1	
FRANCE	A.	29.5	64.7	39.3	-2.5	-8.4	-12.5	-13.4	N.A.	-6.3	AUG
	B.	19.6	30.3	37.2	30.5	19.6	2.2	-9.3		-9.4	
GERMANY	A.	7.8	31.5	21.2	4.0	6.9	13.8	11.9	0.2	0.2	SEPT
	B.	8.4	12.9	15.8	15.6	15.4	11.3	6.5	5.6	5.6	
ITALY 1/	A.	25.5	89.2	39.7	24.3	11.7	1.4	0.4	N.A.	0.4	AUG
	B.	23.6	39.1	43.0	42.5	38.4	18.4	9.1		5.4	
NETHERLANDS	A.	15.6	27.1	6.6	9.5	12.9	2.2	-1.1	N.A.	0.5	JULY
	B.	12.7	15.5	11.9	14.4	13.8	7.7	5.7		5.0	
UNITED KINGDOM 2/	A.	16.7	31.8	34.1	20.8	34.5	30.0	25.4	16.2	16.2	SEPT
	B.	9.4	15.7	28.0	25.7	27.7	27.3	25.1	23.9	23.9	
JAPAN	A.	39.5	72.7	10.0	12.3	4.8	-2.4	-0.6	2.2	2.2	SEPT
	B.	23.9	35.5	35.4	32.5	23.4	7.0	3.4	0.9	0.9	
CANADA	A.	17.1	31.1	15.7	10.0	13.6	-1.6	1.8	N.A.	7.9	AUG
	B.	26.4	27.0	25.6	19.3	18.3	10.1	6.7		6.2	
UNITED STATES	A.	3.5	29.2	15.0	31.6	14.7	-0.1	4.4	8.8	8.8	SEPT
	B.	15.4	17.4	15.9	19.3	22.4	14.7	12.0	6.8	6.8	

1/ VAT WAS INTRODUCED JANUARY 1, 1973.
2/ VAT WAS INTRODUCED APRIL 1, 1973.

SOURCES AND DEFINITIONS: ALL COUNTRIES EXCEPT FRANCE AND UNITED KINGDOM: GENERAL WHOLESALE PRICE INDICES; FRANCE: INDUSTRIAL PRODUCTS; UNITED KINGDOM: ALL MANUFACTURED PRODUCTS, HOME MARKET SALES. BELGIUM, BULLETIN OF THE NATIONAL BANK OF BELGIUM; FRANCE, MONTHLY BULLETIN OF STATISTICS; GERMANY, WIRTSCHAFT UND STATISTIK; ITALY, CONGIUNTURA ITALIANA; NETHERLANDS, MAANDSCHRIFT; UNITED KINGDOM, MONTHLY DIGEST OF STATISTICS, JAPAN, ECONOMIC STATISTICS MONTHLY; CANADA, CANADIAN STATISTICAL REVIEW; UNITED STATES, U.S. BUREAU OF LABOR STATISTICS.

SOURCE: Federal Reserve Board

Table 8.--Selected Industrial Countries: Change in Hourly Earnings From Year Earlier

(Percentage changes)

Period	France	Germany	Italy	United Kingdom	Canada	Japan	United States
Average 1969-72...	11.1	10.7	13.3	11.1	8.2	17.4	6.5
1973: I ...	12.8	10.3	15.1	13.9	8.5	18.4	6.1
II ..	13.3	10.8	24.2	14.6	9.2	20.6	6.6
III..	14.5	11.5	28.3	14.6	8.6	25.2	7.0
IV ..	15.5	11.4	28.7	12.7	9.3	28.6	6.9
1974: I ...	15.8	7.8	27.9	10.5	9.9	24.8	7.1
II...	17.8	12.0	22.1	13.7	11.0	36.4	7.5
III..	20.5	11.8	20.1	19.9	14.9	38.8	8.1
IV...	20.6	10.9	20.6	25.3	17.0	30.5	8.5
1975: I ...	20.9	10.8	28.4	31.7	18.1	40.1	8.6
II ..	18.5	7.4	29.7	28.2	18.7	12.0	7.7
III..	17.4	7.4	29.7	1/26.7	18.7	2/13.6	7.0

1/ July-August 1975/July-August 1974.
2/ July 1975/July 1974.

Sources and definitions: OECD and National Sources.
France-hourly rates, manufacturing; Germany-hourly earnings, manufacturing; Italy-hourly rates, manufacturing; U.K.-average earnings, all industries; Canada-average hourly earnings, manufacturing; Japan-hourly earnings, manufacturing; U.S.-average hourly earnings, total. The U.K., Canada, Japan, and U.S. data are seasonally adjusted.

Table 9. Short-term I[illegible]t Rates
(per cent per annum, at [illegible] near end of month)

October 16, 1975

	1975 Peak (during month)	1975 Low (during month)	1974 June	1974 Sept.	1974 Dec.	1975 Jan.	1975 Feb.	1975 Mar.	1975 Apr.	1975 May	1975 June	1975 July	1975 Aug.	1975 Sept.	Oct.	Latest Date
U.K.	12.75 (Jan.)	9.19 (Apr.)	13.13	11.75	12.44	11.63	10.94	9.88	10.00	9.88	9.63	10.50	10.56	10.63	11.44	10/16
Germany	8.00 (Jan.)	3.50 (Aug.)	9.60	9.70	8.30	7.50	6.35	5.20	4.90	4.70	4.90	4.50	4.00	4.00	4.00	10/16
France	11.75 (Jan.)	6.00 (Sept.)	14.50	13.38	11.88	10.75	9.88	8.88	8.13	7.50	7.38	7.13	7.13	7.25	7.00	10/16
Italy	14.13 (Jan.)	8.25 (Sept.)	20.00	17.75	17.50	14.13	11.69	11.93	10.75	9.75	9.63	10.38	9.38	8.38	8.25	10/16
Belgium	11.00 (Jan.)	6.20 (Sept.)	11.50	12.00	11.00	10.00	9.00	7.40	7.25	6.75	6.25	6.50	6.20	6.20	6.20	10/7
Netherlands	6.69 (Jan.)	2.38 (Sept.)	7.00	7.38	6.69	6.56	6.56	5.69	5.00	3.00	3.00	2.75	3.00	2.75	4.31	10/16
Switzerland	7.00 (Jan.)	5.50 (Oct.)	6.50	7.00	7.00	7.00	7.00	7.00	6.50	6.50	6.50	6.00	6.00	5.50	5.50	10/2
Japan	13.50 (Jan.)	9.00 (Oct.)	12.63	13.00	13.50	13.00	12.75	12.50	11.50	11.00	11.00	11.00	10.50	9.50	9.00	10/2
Canada	9.75 (Jan.)	6.25 (Feb.)	11.00	11.38	10.50	7.00	6.75	6.75	7.50	7.13	7.50	7.50	8.63	9.13	9.00	10/16
U.S.	7.88 (Jan.)	5.25 (June)	11.50	10.38	8.94	6.25	6.13	5.75	5.88	5.25	5.63	6.13	6.31	6.50	6.13	10/16

Notes:
Short-term rates: U.K. - 3-month interbank sterling rate; Germany - 3-month interbank loan rate; France - call money rate against private paper; Italy - 3-month interbank rate; Belgium - rate on 4-month Treasury Bills; Netherlands - 3-month Treasury Bills; Switzerland - 3-month deposit rate; Japan - call money rate, unconditional; Canada - Canadian financecompany paper; U.S. - 3-month CD's.

SOURCE: Federal Reserve Board

Table 10 Long-term Governme d Yields*
(per cent per annum, at r end of month)

October 16, 1975

	1975 Peak: (during month)	1975 Low: (during month)	1974 June	1974 Sept.	1974 Dec.	1975 Jan.	1975 Feb.	1975 Mar.	1975 Apr.	1975 May	1975 June	1975 July	1975 Aug.	1975 Sept.	Oct.	Latest Date
U.K.	17.69 (Jan.)	13.11 (Mar.)	15.41	15.07	17.20	15.04	14.51	13.61	14.94	14.66	14.76	13.72	13.50	13.94	14.74	10/9
Germany	9.74 (Jan.)	7.44 (Aug.)	9.87	9.82	9.43	8.62	8.09	8.05	7.92	7.56	7.53	7.44	7.46	7.48	7.60	10/10
France	10.96 (Jan.)	9.91 (Aug.)	10.87	11.05	10.93	10.66	10.48	10.09	10.23	10.10	10.02	10.00	9.94	9.94		9/26
Italy	11.50 (July)	11.18 (Mar.)	10.38	11.95	12.65	11.45	11.19	11.18	11.42	11.42	11.23	11.50	11.43			end-Aug.
Belgium	9.24 (Jan.)	8.07 (June)	8.86	9.12	9.03	9.24	8.79	8.71	8.42	8.09	8.07	8.21	8.41	8.50		end-Sept.
Netherlands	8.95 (Jan.)	7.50 (Sept.)	9.62	9.48	8.72	8.40	8.42	8.26	7.93	7.54	7.78	8.01	7.69	7.50		9/12
Switzerland	7.17 (Jan.)	6.08 (Sept.)	7.24	7.41	7.17	6.83	6.66	6.83	6.87	6.76	6.51	6.45	6.18	6.14		9/12
Japan	10.64 (Jan.)	9.32 (June)	9.96	10.53	10.85	10.64	9.62	9.94	9.76	9.34	9.32	9.41				7/31
Canada	9.79 (Sept.)	8.14 (Feb.)	9.46	9.67	8.85	8.30	8.17	8.47	8.81	8.73	8.88	9.15	9.39	9.79		9/17
U.S.	8.63 (Sept.)	7.63 (Feb.)	8.16	8.53	7.92	7.89	7.71	8.29	8.41	8.24	8.07	8.18	8.48	8.59	8.43	10/10

Notes:
Long-term rates: U.K. - 3-1/2% war loan; Germany - 6% public authority bond yield; France - public sector bond yield; Italy - composite yield on nine 6% government bonds; Belgium - long-term government bonds, composite yield; Netherlands - average of three 4-1/4-4-1/2% government loans; Switzerland - government composite bond yield; Japan - 7 year industrial bonds; Canada - government long-term average bond yield; U.S. - government 20-year constant maturity bond yields (weekly average).

* Rate for Japan is yield on industrial bonds.

SOURCE: Federal Reserve Board

Table 11.--Weighted Average Exchange Rate Changes from May 1970 Parities for Selected Industrial Countries 1/

(Percentage change: average of daily rates)

		U.S. Dollar	Sterling	Canadian Dollar	Japanese Yen	French Franc	German Mark	Italian Lira
1972:	December	-9.3	-10.6	0.5	11.8	1.2	7.1	-0.9
1973:	December	-15.8	-17.3	-5.9	13.7	6.3	24.4	-10.8
1974:	March	-15.7	-16.3	-2.9	13.0	0.9	26.8	-15.3
	June	-16.9	-15.3	-3.4	11.2	-2.1	30.5	-18.1
	September	-14.6	-16.3	-3.4	7.1	2.5	25.8	-17.9
	December	-17.8	-18.5	-6.6	3.2	6.0	33.8	-20.0
1975:	March	-21.5	-18.3	-11.3	4.1	10.7	36.9	-19.3
	June	-20.6	-22.8	-12.9	2.9	17.8	36.9	-17.7
	July	-17.4	-24.0	-10.5	5.2	14.7	33.1	-18.5
	August	-15.1	-25.0	-8.8	7.0	13.0	30.2	-19.1
	September	-13.9	-25.3	-6.8	7.5	11.7	29.2	-19.5
	October 8	-13.4	-26.7	-6.3	6.9	12.4	30.0	-19.7

1/ Weights are shares of each countries trade in total 1972 trade of the G-10 countries plus Switzerland.

Source: Federal Reserve Board.

France

The recession in France lagged behind that in other countries and, because of the priority given to the improvement in the external balance and a reduction in domestic inflation rates, the French Government until the end of the summer moved more slowly to reflate the domestic economy than have other European countries. The latest and most substantial, reflationary program was announced in early September. Its direct effects amount to about 2-1/4 percent of GNP. Included in the package are expenditures for public works projects; deferment of corporate taxes; tax credits for firms undertaking productive investment before the end of 1975; and lump-sum transfer payments to the aged and to low-income families with children. The program was combined with measures to reduce interest rates and to ease the availability of consumer credit.

These measures are designed to have an immediate impact on the economy and should lend support to the gradual upturn in activity that is expected in the final quarter of this year. The French authorities continue to hope for an investment and export-led upturn triggered by a revival of demand in Germany, in particular. Concern that this year's appreciation of the franc vis-a-vis other European currencies could jeopardize the expansion of exports led the authorities in early October to freeze foreign borrowing by the corporate sector for the rest of the year. For the same reason, inflation remains a primary policy concern and efforts to strengthen the price-guidance system continue.

In France, the recession began to bite only late last year, but falls in output since have been quite severe. Industrial production registered year-over-year declines averaging over 11 percent during the first eight months of this year, and real GNP fell at an annual rate of over 10 percent in the first quarter. Various government spending programs have resulted in a weak increase in public expenditure and real wage boosts during early 1975 supported a slight rise in consumer expenditure. Rising savings rates are a major factor in the weakness of consumer demand. In addition, sharp inventory reductions held down output.

The weakness in activity has led to an improvement in the price and trade performance. Consumer prices currently are rising at an annual rate of 8-1/2 percent as compared with a 12-3/4 percent rate a year earlier. Wholesale prices actually fell every month this year until July, when an increase was registered. There has been a substantial turn-around in the French trade balance, however, as in most other countries, this is due to a sharp fall-off in imports rather than to strength on the export side. Increased sales to OPEC and Eastern Europe managed to prevent export sales from plummeting, while until recently the appreciation of the franc caused local currency costs of dollar-denominated imports (e.g., oil) to decline.

An upturn in final demand is not likely before early 1976. Investment may pick up temporarily in the fourth quarter as businesses make use of the incentive program before its December 31 expiration date and inventories may no longer constitute a drag on output in the second half of this year. But unemployment certainly will continue to increase -- for seasonal reasons as well as because of a bunching of lay-offs expected in the fall because government subsidy programs aimed at maintaining employment have not worked well. At the same time, as domestic demand begins to pick up improvements noted in the balance of payments, particularly if demand in Germany continues to lag, may be reversed. In addition, a resurgence of price pressures may well be in the making.

Germany

Uncertainties still remain regarding the timing of the awaited upturn in Germany. Policy has been expansionary since late 1974. Various fiscal programs introduced since the beginning of the year, including direct tax reductions, higher transfer payments, temporary investment incentives, labor market subsidies, and recently, a new construction program, may increase the budget deficit by over DM 25 billion, or about 2-1/2 percent of GNP. The short-fall in revenues stemming from the low levels of activity may amount to over DM 35 billion, bringing the projected deficit for 1975 to about DM 70 billion; this equals slightly under 7 percent of GNP and compares with a DM 9 billion deficit in 1974. In addition, monetary policy has been eased considerably and particularly short-term interest rates have fallen to very low levels by recent standards. Money supply, narrowly defined, has been rising only slowly if at all in recent months. But this may reflect sluggish loan demand more than policy actions. The liquidity position of the private sector has improved significantly, so that the basis for an upturn in domestic demand appears to have been laid.

However, activity rates have failed to turn up decisively and industrial output, although it stopped falling recently, has remained essentially flat during the first eight months of this year. Retail sales have picked up, but disposable personal income has grown considerably faster, so that the savings rate has risen to post-war highs. In addition, export demand, which had been the only significant expansionary component of private demand from the beginning of 1973 until mid-1974, turned down in the second half of last year. Recently, falls in exports have constituted a substantial drag on German economic activity.

As a result of these developments, capacity utilization has fallen considerably and this partly explains why investment expenditures have continued to decline despite the temporary investment incentives that were in effect during the first half of this year. But the failure of investment expenditures to respond to the fiscal stimulus clearly is influenced also by the continuing fragile state of business confidence as expressed in survey results. Latest data indicate some revival in foreign orders for investment goods, but the inflow of orders from domestic sources continues weak.1/

The German Government, while putting in place its latest reflationary fiscal program, is also looking to a revival in demand in other countries to help ignite recovery of economic

1/ The effect of the expiration of the temporary investment credit in June, 1975 makes it hard to judge the trend of domestic order flows.

activity in Germany. However, it should be noted that exports of goods and services, currently running at 35 percent of real GNP, absorb a much larger share of domestic resources than in recent years. During the second half of the Sixties when export surpluses began to be embarrassingly large, they constituted about 25 percent of real GNP. But the slightly rising trend in the share of exports moved up sharply in 1973-74 to reach a peak of 38 percent by mid-1974. Clearly, the German economy should not, and does not, depend to this extent on foreign demand for reasonably full utilization of resources.

There currently is sufficient room to expand domestic demand without fear that resurgent foreign demand would put too much pressure on available resources. The question of sufficiency or insufficiency of demand rather centers around confidence factors. Stimuli built into the economy and liquidity and debt positions of the household sector all argue that, once confidence is restored, an upturn could be very rapid indeed.

Discontinued			
Escape Clause	2	0	--
Dumping	5	3	--
Bounties or subsidies	0	3	--
Remedy put into Effect or Extended			
Escape clause	1	1	--
Anti-dumping	?	?	--
Countervailing duty orders	?	4	--
Unfair import practices*	0	3	--
New temporary	0	2	--
New permanent	0	1	--

NOTE: The number of investiations and findings include cases carried over from previous years; --indicates no action; ? date not confirmed.

*Action taken under Section 337 Tariff Act of 1930, as amended or Section 301 of Trade Act of 1974.

Source: International Trade Commission and Treasury Department

Major Anti-Dumping and Countervailing Investigations

Automobiles--The United Automobile Workers Union and Congressman Dent of Pennsylvania submitted a petition for the application of anti-dumping duties to offset dumping margins (the differences between the home market price and the lower sale price in the United States) on cars exported to the United States by a number of foreign producers in the U.K., Germany, Italy, Japan, and Canada. The Treasury Department has initiated an investigation as to whether dumping exists. However, because the Secretary of Treasury raised substantial doubt as to whether the domestic automobile industry was being injured as a result of possible dumping, the case was referred to the International Trade Commission, for a preliminary determination. Since the Commission found that it could not rule out injury to the domestic automobile industry, the Treasury is continuing with its dumping investigation. Since there appears to be rather clear evidence that some of the automobile imports subject to the complaint have been dumped, the Treasury is likely to make a positive determination on dumping by August, 1976.

Assuming the Treasury finds dumping, the case will go to the International Trade Commission for a final finding of injury, which must be made by November, 1976. There is a real question as to whether the dumped automobile imports are causing injury to domestic manufacturers. The preliminary refusal to the Commission to find that there was no reasonable indication of injury in no way should be taken to predict a final affirmative finding of injury.

Steel--U.S. Steel submitted a petition for the application of countervailing duties to offset the remission of Value Added Taxes on EC exports of steel to the United States. The Treasury rejected the complaint on October 20, on the grounds that the remission of Value Added Taxes is not a bounty or grant, as specified by U.S. legislation covering countervailing duties. U.S. Steel is expected to file an appeal against this ruling to the Customs Court, on the grounds that remission of internal taxes should be considered a bounty or grant.

Canned hams--Farmland industries, a domestic producer of hams, submitted a petition for the application of countervailing duties to offset the subsidization of EC exports of canned hams to the United States. The Treasury made a preliminary finding on June 30, 1975, that EC canned hams exported to the United States were being subsidized as a result of restitution payments made under the EC's Common Agricultural Policy. Recent consultations between the United States and EC officials on the relevant facts have led to a solution. The EC reduced subsidies on canned hams on November 10. This decision has made it possible for the Secretary of the Treasury to suspend the application of countervailing duties on the grounds that the EC has substantially reduced the adverse effect of the subsisized imports of U.S. producers.

The EC export subsidy on canned hams were cut by about 50 percent between early 1973 and November 1974, and they were reduced by another 20 percent as a result of the recent decision. Pork produced in the United States is currently in short supply and given the feed grain supply situation it is unlikely that there will be any major turn around in the level of U.S. pork production before early 1977.

EXPORTS, IMPORTS, AND TRADE BALANCES
FRANCE, GERMANY, ITALY, U.K., JAPAN, CANADA, U.S.
YEAR 1974 and JAN.-JUN. 1975
MILLIONS OF DOLLARS

	Jan.-Jun. 1975			Jan.-Dec. 1974		
	Balance	Exports	Imports (CIF)	Balance	Exports	Imports (CIF)
Japan	-1,887	26,944	28,811	-6,479	55,596	62,057
France	-13	28,005	28,018	-6,441	46,473	52,914
Germany	8,656	46,132	37,476	20,158	89,055	68,897
Italy	NA	NA	NA	-10,687	30,240	40,927
U.K.	-5,120	22,348	27,518	-15,504	38,640	54,144
Canada	-1,807	16,718	18,519	-354	34,228	34,573
U.S.	2,911	53,933	51,014	-9,489	98,507	107,996

Source: IMF

U.S. TRADE WITH THE EC, JAPAN, CANADA
1974 and January to Sept. 1975
Millions

	1974	Jan.-Sep. 1975
U.S. Trade Balance with:		
EC	1,472	+3,558
Japan	-2,796	-1,893
Canada	-3,027	-608
U.S. Export to:		
EC	22,069	16,836
Japan	10,679	7,237
Canada	19,932	15,955
U.S. Imports (CIF) from:		
EC	20,597	13,278
Japan	13,475	9,220
Canada	22,959	16,563

Source: Bureau of Census

TAB B-7

U.S. GENERALIZED SYSTEM OF PREFERENCES

(GSP)

Before departing, you signed a proclamation leading to the implementation of a Generalized System of Preferences (GSP) on January 1, 1976. Under this system, specified commodities imported from certain developing countries will enjoy duty-free entry into the United States up to certain limits. Key elements of this system are:

Eligible countries: 97 plus 40 territories.

Eligible commodities: 2,723

1975 U.S. imports in these items: $24 billion

Exclusions: OPEC members, communist countries without MFN treatment, nationalizers of U.S. property without compensation

Our purpose in adopting this is to join the other 22 countries which have granted GSP to LDC"s in order to assist the latter in strengthening and diversifying their economies.

TAB C - Monetary Issues

Implementation of Gold Agreement

Implementation of the August gold agreement has received considerable attention in the press in recent days.

The August gold agreement has three main parts:

-- one-sixth of IMF gold to be sold to finance aid for LDC's, mainly through an IMF Trust Fund;

-- a general distribution or "restitution" of another one-sixth of IMF gold to members; and

-- elimination of the official price of gold, thereby permitting central banks to purchase gold at market prices, subject to transitional safeguards.

The first two parts of the agreement can be implemented legally without amending the IMF Articles of Agreement. However, implementation of the thrid-- allowing central bank purchases at higher-than-official prices -- would contravene the Articles and would require an amendment. This would take time and require Congressional authorization. The Europeans are pressing for simultaneous implementation of all three parts of the agreement. They believe there was a tacit understanding in August on simultaneous implementation and that the whole gold agreement would probably be implemented as soon as the exchange rate element of the comprehensive monetary package is settled.

We have no substantive policy problems with the European views on timing. The legal problem is one we are concerned about. In particular, we are concerned that early implementation, prior to amendment, could lead to the change that we have acted without required Congressional authorization. On the other hand, a delay in implementing the agreement for the 1 to 1-1/2 years needed for the amendment process would mean a delay in IMF gold sales to finance the LDC Trust Fund, which we have advocated strongly as an emergency response to LDC financial problems caused by the oil crisis.

Some of the Europeans have interpreted our concern over early implementation of the part of the agreement permitting central bank purchases as a U.S. effort to prevent central banks from buying gold in order to allow IMF gold sales to drive down the gold price. This is not the case. We are not attempting to undo the agreement and are concerned solely with the technical/ legal problem.

We are discussing possible alternatives with the French and others and expect to be able to settle this question of timing of implementation. At this stage, we do not anticipate that the issue will be raised at the Summit.

TAB D - Relations with
Developing Countries

TAB D-1

RELATIONS WITH DEVELOPING COUNTRIES

BACKGROUND AND ANALYSIS TO SUPPORT U.S. POSITION

To consolidate our gains in North-South relations, we need to take several actions. First, we should use every opportunity to stress our recognition of the stake of the developing world in economic recovery in the OECD region (an assertion of our concern, but equally important of LDC dependence on the OECD area). Economic recovery in the developed countries is the most important potential contribution to increasing LDC gorwth rates. Those LDCs with good domestic policies will re-establish rapid growth within a couple of years of DC recovery. Such recovery will strengthen the ties of the successful developing countries with the existing trade and monetary system and both weaken the LDC-OPEC link and move LDCs generally toward greater cooperation within the existing system. Second, the LDC moderates bet on the industrial West should be validated by early successful negotiation of some of the major initiatives launched at the Special Session. The more important ongoing negotiations in which the credibility of U.S. initiatives is involved are the following:

The Development Security Facility of the IMF

This is our proposal for expanding financing from the IMF, up to $2.5 billion annually, to compensate developing countries for shortfalls in their export earnings. For the poorest, compensation could be on a grant basis, from the IMF Trust Fund, if earnings fail to recover.

The IMF Board's discussions have hit severla snags: IMF staff criticism of the conservative bias in our proposals in highly inflationary times unless export shortfalls are calculated in real terms; unwillingness of others to exclude industrial countries from the new facility; tepdi support, except from the Germans, for the highly concessional, Trust Fund, component of our proposals.

IMF Trust Fund. While agreed in principle, IMF members are getting cold feet over setting an early date for gold sales by the IMF to finance the Trust Fund.

International Fund for Agricultural Development. A World Food Council group has developed draft articles. The OECD countries have indicated considerable financial support, but the OPEC countries have been less clear on their contributions (which should match those of the OECD countries). Congress appears likely to authorize a U.S. contribution of $200 million.

Increasing World Bank Resources. The Bank has proposed a quadrupling of the International Finance Corporation's capital in line with U.S. proposals. Support from others is mixed. Suspicion has been aroused by our non-committal attitude on replenishment of the IDA, the Bank's soft loan fund. These replenishment negotiations will be particularly difficult for us in that the Congress has not yet appropriated the first of four installments of our contribution to the previous replenishment and thus, FY '80 will be our first actual contribution year unless we double up appropriations.

Third, we should affirm our intention to successfully launch the producer/consumer dialogue by the 27-nation Ministerial Conference on International Economic Cooperation, December 16-18. The Ministrial will establish four commissions of 15 members each on energy, raw materials, development, and finance. A major possible stumbling block is British insistance on a separate seat in the dialogue, in addition to a European Community seat, to protect British interests in North Sea oil. We should consider this an infra-European issue and not press for its consideration at the Summit.

Concerned about the tensions in the OPEC/LDC alliance created by the LDCs' balance of payments difficulties and the West's new flexibility, the OPEC countries are anxious to up-stage the industrial countries in the Dialogue by pressing some proposals of their own. These will be based on a judicious mix of real assistance -- new funds, perhaps financed by a surcharge on oil exports -- and unnegotiable demands on the West, particularly indexation of commodity prices, which unite OPEC and LDC interests at a level of general principles which is difficult to deal with by practical negotiation.

Commodities

While most of the world's commodities production is traded among industrialized countries, it is of even greater importance to the developing countries. Although their exports of manufactured goods are rapidly expanding, they are still dependent on commodity export earnings. Consequently, many of their economic demands have taken the form of proposals for improvement in conditions of trade and payment received for their commodity exports.

Spurred by the OPEC example, developing country exporters of commodities are pressing for international arrangements to set higher prices for their commodities, and maintain their value in future years through indexation. In addition, they are asking for special and more favorable tariff and non-tarff-barrier treatment for their exports, international financing of buffer stocks and improved compensatory financing of fluctuations in their export earnings.

Improving economic and political relations is the principal motivation behind the OECD countries' response. Certain measures, however, would specifically benefit industrialized and developing countries: a better climate for private investment in the developing countries; more orderly access to supplies during times of shortages; improved information exchange, and similar cooperative measures to improve the functioning of the commodities markets.

Addressing the Seventh Special Session of the UN General Assembly and the Inernational Monetary Fund in September, Secretaries Kissinger and Simon advanced a far-reaching set of proposals affecting trade and investment in commodities including:

- establishment of the new Development Security Facility in the IMF;
- a constructive, case-by-case approach to commodity negotiations;
- establishment of producer/consumer forums for every key commodity in international trade;
- expansion of productive capacity through improvement in the security and climate for investment in developing countries;
- measures to help developing countries diversify their exports and improve their production and marketing measures;
- measures in the Multilateral Trade Negotiations to improve conditions of trade, including reduction of duties on processed raw materials and possible agreement on principles of access to markets.

While rejecting proposals for general multi-commodity agreements, automatic price escalation for commodity prices, and similar measures that would distort long-term market levels, we have agreed to a continuing and expanded dialogue. We will discuss general commodity issues at the Energy Producer/Consumer meeting in December and at the fourth UN Conference on Trade and Development (UNCTAD) in May, as well as in the numerous more traditional forums such as the Multilateral Trade Negotiations. We are also fully participating in international forums devoted to specific commodities, such as tin, coffee, and cocoa and will be joining in others in the near future.

Our major commodities-related proposal is to establish a Development Security Facility in the IMF to make up to $2.5 billion per year in loans and grants to developing countries suffering from severe fluctuations in export earnings. If established, it would assist economic development in the Third World while reducing pressure for less desirable measures. The IMF is the logical place for this initiative: it has the experience and the funds (from profits on sale of gold).

While seeking support for our specific export earnings stabilization proposal in the IMF, we have been pressing in other forums, such as the OECD, for a more general consensus that the industrialized countries will focus their export stabilization efforts in the IMF.

A detailed discussion of the U.S. proposal at the Summit would not be feasible. It would be major step forward, however, if agreement were reached that a facility for export stabilization should be established promptly in the IMF -- along the lines of our proposed Development Security Facility.

The more radical developing countries have proposed that the price of raw materials be automatically increased in proportion to an "index" price -- such as the cost of manufactured goods. While we are committed to discuss this subject with the developing countries at the UNCTAD IV meeting next May, there is general agreement among the industrialized countries that such proposals would prove unworkable in the long run. They would needlessly disrupt markets and increase the cost to the consumer in the interim.

There is already a substantial amount of informal agreement among industrialized countries that the proposal is undesirable. It would be useful to consolidate this consensus in a discussion of commodities by aiming for a conclusion that while we will continue to give serious consideration to indexation, it does not appear to be a useful approach at this time.

The U.S. has stated that we will give serious consideration to commodity arrangements on a case-by-case basis. The Administration will seek Congressional support for U.S. participation in the Tin Agreement. We participated in the cocoa and are prepared to participate in coffee negotiations. We have also proposed that forums be established to discuss problems of other key commodities, although we remain opposed to agreements which would artificially raise prices above long-term market levels. These proposals would be furthered by a consensus statement supporting the establishment of such forums and the general principle involved, that producers <u>and</u> consumers should jointly without preconditions or commitments discuss the problems of individual commodities.

<u>Grain Reserve Negotiations</u>

At U.S. initiative, establishment of an international grain reserve system has been under discussion by a subgroup of the International Wheat Council (IWC), where we introduced a comprehensive reserves proposal in September. More recently, the European Community (EC) has refused to continue these discussions because of its preference for a price stabilization arrangement, or commodity agreement, on grains which it has proposed in the MTN. We cannot make progress on a food security reserve without EC participation.

In initiating work toward a food security reserve, we selected the IWC because of its functional competence and because the Soviet Union, which is the major destabilizing factor in world wheat production and trade, is a participant in the IWC but not in other forums. The concept we advocate is based on improving assurance of adequate grain supplies through coordinated national stockpiles. Unless we can soon demonstrate progress in our chosen approach by at least moving to negotiation, we will begin to lose control of a major U.S. food initiative to LDCs anxious to work on the issue in forums, such as the World Food Council, where it could be distorted into an open-ended food aid program.

The EC approaches the food security problem from the perspective of price stabilization. It prefers a price agreement to our approach in order to reduce internal and external pressure for changes in its Common Agricultural Policy (CAP). Consequently, the EC is pressing for introduction of the U.S. reserves proposal into the MTN. It then hopes to make the transition from discussion of a reserve stock for food security to a buffer stock for price stabilization.

We have repeatedly assured the EC that we are prepared to take the results of a food security reserve negotiation into account in the MTN. We have also worked to convince the EC that our reserves proposal is consistent with their objectives, since it would tend to ameliorate extreme price fluctuations, but that we will not accept an arrangement aimed at price stabilization.

At this juncture, a change in the EC mandate from the member states which would permit it to negotiate on a food security reserve is the key to further progress.

TAB D-2

Relations with Developing Countries

Background and Analysis to Support U.S. Position

Expropriation of Foreign Private Investment In Developing Countries

The ability of the U.S. Government to intervene effectively in investment disputes has been weakened by growing nationalism in the developing countries and declining leverage through our aid program. Our prospects for attaining equitable treatment for our investors would be improved if other industrial countries and international institutions took a firm position on respect for property rights by developing country governments.

The Summit could possibly contribute to our objectives by enlisting support of others for a stronger stance by industrial countries generally and by the international financial institutions on equitable treatment for foreign private investment. Areas for discussion and possible agreement could include a) recognition of the importance of equitable treatment in assuring that needed investment flows to developing countries take place, b) affirmation of support for arbitration and other third-party procedures for settlement of investment disputes and c) a conclusion that international financial institutions and development agencies should support respect for the basic obligation of States to make full compensation for expropriated property.

Most of the other Summit participants may be reluctant to reach precise conclusions on this subject, particularly in any public declaration. Their basic standpoint will be that issues involving protection of private investment are controversial and possibly confrontational, whereas their basic political requirement in north/south relations is to be viewed as cooperative and accommodating. With the exception of the British, other Summit participants are also significantly influenced by the fact that their interests in developing countries are political, commercial and financial -- with investment relations as a lesser-order interest.

The Europeans and Japanese also tend to view expropriation problems as once effecting mostly American private investment; therefore, common approaches with the U.S.

involve them in protecting mainly our interests at little benefit and considerable cost to them (encumbrance of political relationships and thereby trade and credit interests which are more important to them than investment protection). There is also some feeling in Europe and Japan, rightly or wrongly, that security for their private investors in developing countries is enhanced by their maintaining some distance from harder U.S. positions on investment protection. In short, the Europeans and Japanese find a very low profile on foreign investment issues in developing countries best serves their interests.

Recognizing that others' interests in this question differ from ours, there may nevertheless be some benefit in discussion of the problem. The one measure that the Europeans and Japanese may support could be more active support by the international financial institutions for fair treatment for foreign private investment. Withholding of financial assistance by these institutions in cases of clear disregard for investor rights can be an effective sanction. The Europeans and Japanese may be willing at least not to undermine our effort to get these institutions to uphold standards of fair treatment for investors on the part of their developing country clients.

Proposed Talking Points for Use by the President

-- In supporting economic growth in the developing countries all of us would like to have some confidence that our assistance is additional to, and supportive of, effective mobilization of other resources by the receiving government.

-- This is not the case when a government seeking aid is simultaneously discouraging private investment through expropriation without fair compensation.

-- Thus, while none of us wants to be confrontational on this subject, we share an interest in promoting an international climate of respect for the obligation to treat investors fairly.

-- Politically, the best path to greater respect for this obligation may be to use multilateral development and financial institutions.

-- By upholding reasonable standards for treatment of private investors on the part of their borrowers, these multilateral institutions can contribute to their basic mission of promoting economic development.

TAB E - Energy

TAB E-1

QUESTION: Do you not expect decontrol of oil price to lead to adverse political repercussions, since it would mean immediate increases in gasoline prices? Is the American public prepared to see gasoline prices rise to the European and Japanese level?

ANSWER: The US Government has undertaken a major effort over the past 2 years to educate the public about the true nature of our energy crisis and the sacrifices which every American will have to make if we are to solve it. I think Americans have been ready for some time to tighten their belts to reduce unneccessary energy consumption and are disappointed by the Congress' failure to enact any effective energy program which would diminish our vulnerability to embargoes. To achieve conservation of 1 MMBD in the next few years, gasoline prices in the US might have to increase by 10-15¢ a gallon. Gasoline prices have traditionally been higher in Europe and Japan than in the US, principally because of higher taxes. The US will achieve significant reductions in oil imports through enactment of a comprehensive energy program, within which retail gasoline prices would not have to bear the entire burden of price-induced conservation.

ADDENDA

QUESTIONS & ANSWERS

QUESTION: In absolute terms and by what measures do you expect the United States to reach an 8MMBD decrease in oil imports from previous estimates?

ANSWER: Our most recent estimate shows that continued present trends would lead -- at a price of $12 a barrel (F.O.B. Persian Gulf) in 1975 dollars and in the absence of concerted domestic policies -- to an oil import level of 12 million barrels a day by 1985 -- a level of unacceptable energy vulnerability. An import level of 3-5 million barrels a day would reduce vulnerability to a manageable level, assuming a 1 billion barrel storage program in place and diversification of imports to more secure sources. A combined strategy of increasing domestic supplies and decreasing consumption makes the approximately 8 million barrels a day difference. Supply actions include decontrol of oil prices, price deregulation of natural gas, accelerated development in frontier areas, 200 nuclear power plants, and a synthetic fuels program yielding one million barrels a day.

ENERGY

BACKGROUND AND ANALYSIS TO SUPPORT U.S. POSITION

The major industrialized countries are politically and economically vulnerable because of excessive dependence on imported oil. The threat of embargo constrains our international freedom of action and, as we saw in 1973, can cause serious strain on our overall political and security relationships. At the same time, the massive price increases of the past two years have been a major factor in industrialized country recession and inflation while wreaking havoc with the economies of the developing countries.

Our response to this situation recognizes that we can reduce our vulnerability somewhat in the short-term but that the only long-term solution lies in shifting the balance of world energy supply and demand, thereby ending OPEC's unilateral control over oil price and supply. Our strategy has four major interrelated elements:

-- Short-term protection against embargoes and destabilizing movements of OPEC assets;

-- A strong U.S. program to reduce dependence on imported oil by conservation and development of new supplies which, coupled with a strategic storage program, will end our vulnerability to embargoes;

-- Close cooperation with other major oil consuming countries to reinforce and supplement national programs of conservation and new production; and

-- Efforts to intensify links with oil producing countries which maximize their stake in our economic well-being, thus constraining their pricing decisions.

We have already made substantial progress on the first of these four elements with the establishment of the emergency oil sharing arrangement in the IEA and the creation of the financial solidarity fund in the OECD.

U.S. Domestic Program

At the Summit, the President should outline progress on the major elements of the U.S. energy program including:

Conservation

-- price decontrol, either phased through agreement with Congress or immediate in absence of acceptable compromise;

-- agreement with auto makers on improved efficiency standards; and

-- substantial fuel-switching effort.

New Supplies

-- efforts to facilitate completion of pipeline to begin moving Alaskan oil to lower 48 states by 1978;

-- proposal to create $100 billion Energy Independence Authority to stimulate development of alternatives to imported oil;

-- $11 billion synthetic fuels program;

-- push for Congressional authorization for opening up Naval petroleum reserves;

-- accelerated leasing in frontier areas; and

-- encouragement of construction of fourth uranium enrichment facility.

A candid but upbeat report on the U.S. program will be key in building an atmosphere in which the U.S. can continue to exercise international leadership on energy. The Europeans and Japanese have been confused and concerned by the wide split between the President and the Congress on energy policy. They fear that the U.S., which consumes roughly half of the world's oil, will not be able to come to grips with the energy crisis, thus negating their own national efforts. If this attitude prevails, we risk that the others will drop away from the concept of consumer cooperation and revert to trying to solve their energy problems on a bilateral basis with major OPEC countries, particularly since their greater relative dependence on imports makes bilateral deals with producers attractive to them. This would deprive us of our role as a leader among the consumers and the major bridge between producers and consumers. It would also have major adverse implications for potential cooperation in the other areas to be discussed at the Summit.

Consumer Country Cooperation:

Our emphasis on consumer cooperation on energy is based on two fundamental imperatives:

(1) recognition that only by marshalling all the major consumer countries on conservation and the development of new supplies can we bring about the shift in world supply and demand for oil which will eventually end our price and supply vulnerability by ending OPEC's unilateral control over the pricing mechanism; and

(2) that the exercise of U.S. leadership on this central issue is essential if we are to retain our leadership position in the other areas of our economic, political, and security relationships with Europe and Japan.

With the establishment of the emergency program and the creation of the IEA, we have made considerable progress toward consumer cooperation. However, the most vital step remains -- the establishment of a serious long-term cooperative package to reduce dependence which will tie our energy efforts together under a series of common political commitments and establish a concrete joint work program. We are now in the final stages of negotiating this agreement in the IEA. It will have four major elements:

(1) a common conservation effort, including rigorous review of national programs and the setting of joint conservation targets;

(2) a series of measures and programs to develop alternative supplies, including:

- a minimum safeguard price mechanism for imported oil (MSP);
- a framework for cooperation on individual energy projects;
- cooperative activities to increase production from individual energy sectors (e.g., nuclear coal, etc.); and
- rigorous review of national accelerated development programs;

(3) a pooling of national R&D efforts under a joint strategy and including jointly financed projects; and

(4) provisions on non-discriminatory access to energy investment and product.

The most difficult issues remaining are the MSP and the provisions on access. These are the two most political elements of the program in that they would stand as concrete manifestations of consumer solidarity, striking a balance between the interests of the so-called energy-rich IEA countries on the one hand (U.S. UK, Canada, and Norwy) and the energy-poor on the other.

Under the MSP, we are asking Japan and the non-oil producing Europeans for a commitment that they will not benefit without cost from our efforts to develop relatively expensive energy and force a shift in the world supply/demand balance for energy. They would agree that, if in the future the work price of oil falls below a pre-established MSP level (e.g., $6.00 to $8.00), they will not allow their consumption to escalate but will impose levies or tariffs to keep their domestic selling price above the MSP. The UK, as a future oil exporter, strongly supports the MSP, as does Canada. Germany will accept MSP, without enthusiasm, in the interest of consumer solidarity. Italy and Japan, who will remain heavily dependent on imported oil, continue to drag their feet. France has thus far resisted any EC endorsement of the MSP concept.

On the access question, the Europeans and Japanese seek assurance that, given our joint commitment to consumer solidarity, we will in fact share with them the benefits of the new energy we develop. In particular, they want access to energy investment opportunities and the option of exporting a portion of the investment. They also want assurance that we will not use a two-tier pricing system to subsidize our energy-intensive industries in world trade.

We should use the Summit to generate high-level political momentum among the key IEA countries for completion of the long-term package, including in particular the MSP mechanism, by the December 1 deadline. A firm consensus of the need for an effective program, both in terms of the continued vitality of our own cooperation and as evidence of our ability to respond effectively to the energy challenge on the eve of the dialogue with producers, will greatly ease final agreement in the IEA Governing Board.

We should also use the Summit to draw France more closely toward the concept of consumer cooperation, recognizing that the French are unlikely to agree to join the IEA. In particular, we want to restrict French obstruction of our consumer cooperation proposals. For example, French refusal thus far to agree in principle that the MSP could be applied as an EC regime complicates our negotiation with the other eight EC countries in the IEA.

Coordination for the Producer/Consumer Dialogue

The Summit will take place just one month before the launching in a Ministerial meeting of the Conference on International Economic Cooperation, including the establishment of four separate commissions on energy, raw materials, development, and finance. At this point, it is impossible to judge to what degree this dialogue will produce any concrete results. But we do want to use the dialogue to support the basic elements of our overall political response to the energy crisis.

First, we want to use the dialogue to encourage on the part of the oil producers a greater awareness of their own stake in our economic well-being, thereby reinforcing the moderate OPEC countries on pricing decisions.

Second, we want to keep the Europeans and Japanese locked on to our overall energy strategy. This requires that we assure them that their cooperation with us in the IEA will be reciprocated by our coordination with them vis-a-vis the producers, where they recognize that our political and economic weight gives us unique leverage. This link can be used to reinforce consumer cooperation.

We have already agreed in the IEA to pursue a common strategy on energy in the dialogue. We are now formulating a set of objectives with particular attention to the oil price issue where we want to head off any tendency to try to strike some deal with the producers which would involve indexation or imply the legitimization of current high prices. We should use the Summit to reaffirm this common consumer approach to the energy aspects of the dialogue, particularly on the price issue.

TAB F - East-West Economic
Relations

QUESTION: You speak of a strong domestic program, but many of the key provisions must still be acted upon by Congress. What measures will you take in the event that Congress fails to approve your proposals, and what will be the impact of these measures on your country's import dependence?

ANSWER: I believe the long-term program for energy independence in the United States must be developed jointly by the Executive and Legislative branches. Both the Congress and this Administration are in firm agreement that our level of oil import dependency must be reduced substantially in the near future. Our differences lie in what measures should be taken to reduce this dependency and how fast we should try to achieve our goal. Administratively, we can implement temporary measures such as oil import fees. I am determined to act quickly on decontrol of "old" oil prices, and if necessary to act alone if Congress refuses to produce a compromise on decontrol that I think meets the urgency of the situation. Phased decontrol would reduce imports by 700,000 b/d in 1977 and 2.2 MMBD in 1985. If Congress refuses an acceptable compromise and I permit immediate decontrol, the import savings will be even more substantial.

In the long run, however, we must reach a consensus on the legislative measures required for energy independence.

QUESTION: You mentioned the $2.00 fee on imported oil. Didn't the courts rule against the fees? Is it still being collected?

ANSWER: Yes, a Court of Appeals ruled that the President did not have authority to impose the fee. The Supreme Court, however, has agreed to review this decision and the Court of Appeals issued a stay of its ruling pending a final decision. Pending Supreme Court decision, the U.S. Government is continuing to collect oil import fees. We believe that the Supreme Court will uphold the fee program.

QUESTION: What has been the response of the Congress to your proposal for a domestic energy financing authority?

ANSWER: As you are aware, my Administration has proposed that the Congress create and authorize a 100 billion dollar Energy Independence Authority to facilitate the accelerated development of domestic energy resources through loan guarantees, grants, and direct government participation in developing oil resources. A bill to create such an authority has been introduced in both Houses and is being considered carefully. I hope this proposal, which could have a major impact on developing new energy, will be approved by the Congress.

QUESTION: Why do you regard it as so important to reach agreement on the long-term program in December? Since the producers regard this program as "confrontational", shouldn't we delay its adoption until we can judge the likelihood of success for the dialogue?

ANSWER: The IEA long-term program provides a framework of cooperation that over time will cause a shift in the balance on the world oil market and end the producers' ability to decide oil price levels arbitrarily and unilaterally. It is not confrontational to seek to make market forces the dominant determinant of oil prices and production. Indeed, the actions of producers in unilaterally denying market forces can be labeled confrontational.

We do not believe adoption of the long-term program will hinder progress in the dialogue. In fact, we think it will have the opposite effect. A clear demonstration by the consuming countries that they are committed to solving their energy problems will enhance our bargaining leverage. It will help convince the producers that their position of strength is only temporary and that they will serve their own interest by working with us to ensure a constructive and productive dialogue on energy and other important economic issues.

QUESTION: Why do you put so much emphasis on the MSP? It has strong opposition in your own Congress. Furthermore, it is unnecessary as long as oil prices remains high, and it would deprive our economies of economic benefits should oil prices fall.

ANSWER: The minimum safeguard price is an important element in the long-term program for cooperation. It is designed to safeguard the incentives for energy development and protect energy investment from predatory price cutting by OPEC producers. It is intended to help us avoid repeating in the future our past mistake of becoming excessively dependent on foreign energy supplies. The adoption of the MSP will demonstrate in concrete political terms the strength and solidarity of our response to the energy crisis.

The MSP is only one of several significant and interrelated elements of the long-term program. The others are also important. Taken together, these measures, which provide a balance of advantages and burden, will ensure that our individual and collective efforts will be adequate to achieve our objectives.

QUESTION: You are asking for a binding commitment on the MSP, but you are only willing to agree "to consider" firm guarantees on our access to product from new energy projects in which we invest in the US. Shouldn't these two commitments be parallel?

ANSWER: No. The MSP and the access provisions on project-by-project cooperation are highly important but independent elements in the long-term program. They demonstrate clearly our joint commitment to work together to control our energy future.

The IEA members possessing substantial energy resources will generally gain the greatest benefit initially from the protection to new energy investment provided by the MSP, although all will gain when this new energy comes on stream and enlarges total world supply. The access provisions are designed to benefit primarily the energy-deficient countries. These two elements reflect the basic concept that the long-term program should strike a balance of interests among IEA countries, but it is the total program itself and not just these two elements that establish the overall balance of advantages and burdens.

We should also realize that, since these two elements are different in nature, they cannot be treated precisely in parallel. The MSP commitment can be implemented in a relatively straight-forward manner -- through a general legislative or administration decision. The question of access involves a complex series of existing national policies and laws, and the provisions on access must take these into account in a pragmatic manner. Let me assure you, however, that we regard our commitment on access in the active tense; we will seek wherever feasible a positive decision to guarantee the export of a portion of the production in projects that qualify for access consideration under the terms of the long-term agreement. As I noted in my remarks, this type of commitment is a major innovation in international cooperation.

QUESTION: What projects would the US agree to under this offer to guarantee access to offtake?

ANSWER: We would wish to look at each case separately. One promising area would be coal mining, where a number of cooperative projects already exist.

QUESTION: Would the US be willing to extend its offer on access to offtake in large-scale joint projects to non-IEA countries?

ANSWER: Once the IEA long-term cooperative program is in place, we will be able to devise arrangements for non-IEA countries to participate in these cooperative projects.

QUESTION: What about extending such guarantees on export to cooperative projects in OCS or Alaskan oil?

ANSWER: These will be more difficult than certain other types of projects. Specific legislative prohibitions against export of oil from these areas are either already in force or under active discussion in Congress. However they are not mutually exclusive. In general, we would not exclude in advance any energy projects from this offer; where projects meet the criteria of my proposal we would be prepared to seek Congressional approval for exceptions from any existing legislative prohibitions.

QUESTION: What importance does the US assign to multilateral cooperation in energy R&D?

ANSWER: We consider R&D one of the highest priority areas for our energy cooperation. The national R&D Chiefs of the IEA countries will be in Paris on November 20-21 to complete the overall design of the IEA R&D effort. We will have a joint R&D strategy and we will identify new program areas in which to begin jointly financed projects. The results of the IEA R&D effort to date have been good with 10 projects actively underway including a jointly financed pilot plant in the coal area.

QUESTION: What is the status of U.S. formal adherence to the IEA Agreement?

ANSWER: The U.S. has not notified its consent to be bound permanently. The overall energy plan currently in Conference Committee in the Congress (S. 622 and H.R. 7014) contains provisions which would allow the U.S. to fully implement all IEA commitments and thus formally adhere to the Agreement.

QUESTION: You underemphasize the ability of our economies to adjust to high oil prices. Your alarmist interpretation implies a confrontational approach to the energy crisis. Are you retreating from the UN speech in which Secretary Kissinger stressed cooperative solutions to international economic problems?

ANSWER: The economies of the industrial countries have adjusted to high oil prices with less difficulty than some experts expected, but the cost has still been substantial, in terms of inflationary impact, unemployment, and reduced growth. Furthermore, the transfer of real resources from our economies to the oil producing countries has just begun and will continue for years. Additional price increases will retard and could, in some cases, prevent economic recovery; the uncertainty of future price levels inhibits needed investment. As long as OPEC can unilaterally determine the price of oil and disrupt world supply, we remain vulnerable in political, economic, and in national security terms.

Our economic problems shrink in comparison with those of the non-oil developing countries. In the likely absence of enough help from OPEC, they will look to us for assistance. The surplus earnings of the oil producers are directly related to the deficits of these poorer countries. Last year their payments deficits totalled \$28 billion, and this year it will probably amount to \$35 billion. The financing of these huge deficits is one of the most critical problems facing the international economy.

Thus, we must not minimize the problem, even though the past two years have proved the resiliency of our financial markets. It is not confrontational to appreciate the severity of the problem and the need for hard decisions. But we are convinced, as Secretary Kissinger's UN speech affirmed, that the energy problem and all international economic problems should be dealt with in a cooperative and constructive manner. Developed and developing countries, producers and consumers, should seek together mutually acceptable and mutually beneficial solutions and arrangements that will ensure a better future for us all in the context of a growing world economy. The United States supports this cooperative approach.

QUESTION: Your case for not dealing with oil prices in the dialogue is not salable politically to our publics. How can we ignore oil prices in the dialogue when they are the cause of most of our economic problems?

ANSWER: I agree that we should not ignore oil prices in the dialogue. Our publics justifiably expect us to deal with this issue. We should make the strongest possible case for lower prices in the energy commission and demonstrate analytically why high prices are not in the long-term interest of the producers. But we must be realistic. We cannot reduce the real price of world oil through discussion. We can increase mutual awareness of the relationship between the price of world oil and international prosperity. But the dialogue will not end our vulnerability. That can only be achieved by strong sustained domestic energy programs that reduce our dependency on OPEC oil imports.

QUESTION: I disagree that the dialogue cannot lead to a mutually satisfactory arrangement on price. Don't you think the establishment of a "consultative mechanism" would make it more difficult for the producers to raise prices since they would have to justify the increases in advance to the consumers?

ANSWER: A "consultative mechanism by which producers and consumers consult in advance on oil prices might be useful. It could have a moderating influence on future OPEC price decisions. On the other hand, the producers might go through the motions of consulting but then ignore our arguments, claiming they were not persuasive, and raise prices to whatever level they thought the market would bear. I believe we should investigate the possible benefits of creating such a "consultative mechanism", but since it would not restrict OPEC's ability to determine prices unilaterally, we should not make concessions on energy or in the other commissions to get it established.

QUESTION: You speak of the value of cooperation among major consuming countries in dealing with the energy crisis, yet your Administration is trying to negotiate a bilateral oil deal with the USSR. Isn't this inconsistent with your earlier position of opposing bilateral oil deals? Wouldn't it also mean that the oil that would go to the US would be that currently sold to Western Europe?

ANSWER: A bilateral oil deal between the United States and the USSR could have important and beneficial repercussions. If our negotiations succeed, we will get 200,00 b/d of oil at some discount from the FOB price in the Persian Gulf; this lower price might increase the internal strains on the cartel and put pressure on OPEC countries to cut their prices.

A US-USSR oil-deal would permit us to diversify somewhat our sources of supply for oil imports. We would not expect that the new agreement would lead the Soviet Union to shift current exports from West European countries to the US as this would reduce total Soviet oil revenue.

QUESTION: Does the U.S. actually favor an OPEC price cut? If so, to what level?

ANSWER: Yes, the United States believes the prices set unilaterally by OPEC are too high, and oil prices should be reduced substantially. The magnitude of the OPEC price increases since 1973 can not be justified by either the changes in the costs of imports by OPEC or the costs of developing non-OPEC oil. OPEC's ability and willingness to ignore normal supply/demand forces and raise prices unilaterally demonstrate the necessity for consuming countries to take strong actions, domestically and cooperatively, to shift the balance in the world oil market.

QUESTION: What is the US attitude about bilateral energy arrangements?

ANSWER: We wish to avoid preclusive or preemptive deals that set one consumer in competitions with others. But with substantial excess capacity there may be cases when bilateral deals can assist security of supply increase tensions within OPEC.

QUESTION: What expansion does the U.S. plan in the nuclear energy area, in both its domestic and export aspects?

ANSWER: To increase the amount of total energy supply which is domestically produced, the United States is planning a significant expansion of its nuclear power program. We now have approximately 220 reactors operating, under construction, or on order. Such a rapid expansion from the 55 now in operation obviously dictates the need for early decisions in many aspects of the fuel cycle:

-- We will continue to urge and support the private sector to expand its capability to find and produce uranium ore.

-- I have introduced legislation which is designed to increase the United States' capacity to produce enriched uranium for domestic and foreign customers by creating, under appropriate controls and safeguards, a private, competitive uranium enrichment industry. The Energy Research and Development Administration is currently considering proposals from private industry which would increase significantly our existing enrichment capacity.

-- We also have under consideration future U.S. Government policies with regard to the reprocessing of irradiated uranium and the associated economic and environmental effects. We hope to determine our national policies in this area by 1976 or 1977.

Internationally, we shall continue to serve as a reliable supplier of nuclear fuel as well as reactors and associated equipment, under appropriate and adequate safeguards on equipment, nuclear materials, and associated technology.

OIL COMPANY COLLUSION WITH OPEC

QUESTION: Instead of trying to put pressure on the OPEC countries through the IEA, why don't we pressure the major oil companies without whose collusion the cartel would fail?

ANSWER: The present world oil market reflects a situation -- particularly in the industrialized countries -- in which a steadily rising demand for oil has increasingly been met by imports from those relatively few countries which could supply this demand. This increasing import dependence has put substantial economic power in the hands of the producers who have further enhanced their position by forming the OPEC cartel. This, inturn has lead to dramatic changes in the oil market. It is now OPEC, and not the oil companies, who unilaterally set prices. This shift in power is reflected in a fivefold increase in oil prices over the past two years. Indeed the power of the oil companies even to control their source of crude has been steadily eroded in recent years through the coordinated policy of OPEC which has led to participation agreements and nationalization of company assets in producing areas.

It is these basic shifts in the oil market that make it imperative that we reduce our long term dependence on imports by implementing a strong domestic energy program and cooperative efforts with other consuming countries being developed in the International Energy Agency.

EAST-WEST ECONOMIC RELATIONS

BACKGROUND AND ANALYSIS TO SUPPORT U.S. POSITION

Propsects for Amending the U.S. Trade Act (Jackson/Vanik Provisions)

The main obstacle to further growth in U.S. economic relations with the Soviet Union and a number of other Eastern European countries is our inability to grant nondiscriminatory tariff treatment (MFN) and to extend Eximbank credits to them. The Trade Act of 1974 effectively precludes extension of MFN and government credits so long as the emigration policies of these countries fail to meet criteria set forth in the Act. In addition, the Trade Act and amendments to the Export-Import Bank Act both impose absolute limits on the amounts of credits to the U.S.S.R.

In January of this year, the Soviet Union informed the U.S. it considered the recently enacted trade legislation as contravening both the 1972 Trade Agreement, which had called for an unconditional extension of MFN, and the principle of noninterference in its domestic affairs. The Soviet Union indicated it would not accept a trading relationship based on the Trade Act and accordingly would not put the 1972 Trade Agreement into force.

The Administration has made its own views clear. In a foreign policy address April 10, the President stated that the Trade Act "not only harmed our relations with the Soviet

Union, but seriously complicated the prospects of those seeking to emigrate . . . . Remedial legislation is urgently needed in our national interest." In a letter June 27 to Congressional leaders, the President said that "the Trade Act of 1974, as it relates to this subject, has proved to be both politically and economically harmful to our national interest and has not achieved the objective which its authors intended . . . . I intend to submit legislation to remedy the present unsatisfactory situation in both instances." Prior to doing so, the President asserted that adequate consultations would be held with appropriate members of the House and Senate.

Such consultations have been held. In them key Congressional leaders have shown an interest to change the law in recognition that it has not fulfilled the objectives intended. But they have made clear that, before corrective legislation can be passed, the trend of Soviet emigration must rise, and repression of dissidents must ease.

Administration spokesmen have conveyed this message to the Soviets. We continue to hope for a positive response. We remain committed to the objective of changing the law and removing this obstacle to the pace of expanded East-West economic relationships, and to the larger goal of detente.

U.S. - Soviet Grain Agreement

The United States and the Soviet Union have concluded a long-term grain sale agreement relating to five crop years commencing October 1, 1976, and running to September 30, 1981. The agreement requires the Soviets to buy a minimum of 6 million metric tons of corn and wheat, in about equal amounts, every year. The Soviets will be able to purchase a total of an additional two million tons annually, but amounts over 8 million tons would require further negotiation with the U.S. The grain will be sold at market prices on commercial terms. The agreement applies only to wheat and corn; sales of other grains and soybeans are unregulated.

The agreement provides a form of escape clause that will allow the United States to reduce Soviet purchases below the 6 million ton level if the U.S. grain crop supply (beginning stocks plus estimated production) falls below 225 million metric tons.

U.S. "understandings" with Poland, Romania, and Japan do not include any purchase or supply guarantees. In the case of Poland, Secretary Butz is planning, during his November 25-27 visit to exchange letters with the Polish Government that will contain "best endeavors" assurances. These "best endeavors" assurances provide that Poland would buy 2.5 million tons of grain from the U.S. annually for 5 years with an allowable 20 percent variation either way.

and that Poland would be able to purchase this amount. The Poles clearly understand that the Administration does not intend to negotiate any further along the lines of the U.S.-U.S.S.R. model in that the exchange of assurances is not binding, but rather an expression of intent which will enable the Poles to plan with greater certainty that supplies will be available, and the U.S. to plan with greater certainty that the demand will be there for commodities produced.

With respect to any impact on the U.S. grain reserves initiative, the Soviet agreement is designed only to meet average U.S.S.R. demand. It does not provide the Soviets any assurance about how they will be able to meet their peak demand, such as occurred this year and in 1972. Such assurance really is attainable only through international coordination of grain reserves, as the U.S. has proposed.

U.S.-U.S.S.R. Oil Negotiations

The U.S. and U.S.S.R. have an understanding that the two Governments intend to begin negotiation promptly to conclude an Agreement concerning the purchase and shipment of Soviet oil. The Agreement would have the following characteristics.

It would provide that the U.S.S.R. will annually offer for sale 10 million metric tons of petroleum, of which 70 percent will be crude oil, for a 5-year period. This quantity may be bought either by the Government of the United

States or by U.S. firms. Shipments may be made either to American or third country market areas, but some part of shipments to the United States will be made on tankers used to transport grain to the U.S.S.R.

Prices the U.S. will pay for the crude oil and petroleum products will be mutually agreed, but will be on favorable terms to the U.S.

At the moment there is some doubt how soon the negotiations will in fact resume, and whether or not it is indeed possible to secure an agreement. Should an agreement be reached, we do not believe that it would represent any threat to the pattern of cooperation on energy matters that we have worked so hard to establish among the developed consuming nations. To the contrary, we would anticipate that the Soviet supplies will be a net addition to the energy resources of the West, and will be some additional assurance against an embargo.

The Role of Credit in East-West Trade

The Soviet Union and the countries of Eastern Europe have relied heavily on medium- and long-term official credits to finance capital equipment imports from the industrialized free world. Particularly in the case of the U.S.S.R., nearly all the major Western countries and Japan continue to offer large lines of credit with easy repayment provisions to promote their exports (Germany and the U.S. are the exceptions). Credits at subsidized interest rates offered to the Soviet Union in 1974 and 1975 include:

(Billions of U.S. Dollars)

Japan	1.2	Apr., 1974
France	2.8	Dec., 1974
Italy	.9	Jan., 1975
U.K.	2.3	Feb., 1975
Canada	.5	Apr., 1975
Total	7.7	

The Export-Import Bank is presently authorized to consider loan applications for Poland, Romania, and Yugoslavia. The Bank has made no new loan commitments to the U.S.S.R. since May 1974, and cannot do so until the Soviets satisfy the emigration conditions of the Trade Act. Eximbank credit eligibility for the other Eastern European countries is also related to satisfying these conditions.

Need for a Gentlemen's Agreement on Credits

Subsidized credits, such as those extended to the U.S.S.R. by France, the U.K., and Japan, create a competitive environment among official export credit institutions. This official competition results in economic costs which are borne by governments and the private sector at large, and distorts the flow of trade.

For the past year and a half, we have been attempting to negotiate an agreement among the principal industrialized countries to reduce government competition in the financing of exports to all countries.

The major negotiating issue has been the trade-off between minimum interest rates to be charged on official credits and maximum permissible maturities. The U.S. and Germany have consistently favored interest rates (8-9%) that are reflective of market rates, while permitting latitude on maturities. The French and British prefer the opposite. The Japanese like the flexibility offered by the present lack of restrictions but will not want to be isolated.

The French have stated that they could not accept a Gentlemen's Agreement which specified minimum interest rates for their line of credit to the U.S.S.R. If Eximbank is authorized to match low interest rates the French and others have extended to the Soviets, there will be a net decrease in financial returns to the U.S. It is thus in our interest to try to persuade our major competitors to join us in an agreement to regulate the softness of credit terms extended for exports to the U.S.S.R. and other nonmarket economy countries.

<u>COCOM Controls</u>

The 15-nation (NATO countries minus Iceland plus Japan) Coordinating Committee (COCOM) that coordinates Western policy on strategic export controls began a comprehensive review of the international strategic embargo lists a year ago this month. The last previous such review was completed in 1972.

Progress has been slow during the first three rounds of these multilateral negotiations. A fourth round is scheduled to begin November 17 with a view to wrapping up the negotiation by the end of the year.

The purpose of these periodic COCOM list reviews is to add to the control list advances in militarily significant equipment and related technology and to remove or liberalize control for items whose military significance has diminished. The principal negotiating problems relate to liberalization. The other major member countries consider that the United States is too slow to acknowledge the need to remove controls on items where there is extensive civil use and hence important commercial interest.

The steady increase in exceptions cases (proposals by member countries for exceptions to the embargo in cases where peaceful civil use can be demonstrated), almost all of them approved, reflects the extent to which the COCOM controls have an impact in the commercial area. As of September, such exceptions requests were up 55 percent over those pending a year ago. Moreover, the fact that close to half the exceptions being approved currently are U.S. cases is seen as inconsistent with the tight U.S. position in the list review.

At the close of the third round the United States was criticized for being unprepared to engage in a bona fide negotiation and for unreasonable delays in responding to the proposals of other countries. The British, Germans, and Japanese have bilaterally expressed their concern at the lack of progress and the dangers to the viability of COCOM itself. They have emphasized the essentiality of a realistic U.S. negotiating posture in round four. The British have warned that continued COCOM tangles could lead to ministerial review of the utility of the system.

We are aware of the importance of the fourth round of the COCOM list review and we expect to participate actively in the COCOM negotiations, with a view to reaching final decisions that can be supported by all members, based on full and open technical exchanges.

We continue to attach importance to the COCOM system as a means of safeguarding the mutual security of the member countries, and we urge our COCOM allies to pay close attention to their compliance activities with respect to the existing controls.

While it may in some cases be necessary to maintain controls over advanced technology of strategic significance despite some impact on purely commercial trade, we believe the COCOM controls in general are not a significant impediment to increased East-West trade.

U.S.S.R. and Eastern European Hard Currency Deficits and Debt Burden

U.S.S.R.

The Soviet Union recorded a $912 million deficit in its hard currency trade with the West in 1974 and a record high deficit, as large as $3.5 billion, is projected for 1975. Further, large deficits are expected to continue into 1976, as a result of large Soviet purchases of grain, together with a continuing high level of capital goods imports from the West. However, the Soviet Union should have no serious difficulty in financing these deficits through gold sales and drawings on Western credits, without adversely affecting its international credit worthiness.

Eastern Europe

East European hard currency indebtedness has soared in recent years -- from an estimated $5.5 billion at the end of 1970 to roughly $15.5 billion at the end of 1974. The extent to which the East-European countries can expand their exports to the West and find new sources of long-term financing will determine their ability to continue to increase imports from the West.

Some of their best hard currency earners -- such as processed foods -- may have to be partly redirected to the Soviet market to offset the higher prices imposed by the U.S.S.R. for its oil and raw materials. Poland and Romania have coal and oil resources that will mitigate the impact of these price rises, but the other East European countries, more dependent for energy on the Soviet Union or other external sources, will be adversely affected. In any case, East European leaders are concerned about the burgeoning hard currency indebtedness and will likely have to slow down the growth of imports and borrowing from the West.

Summary

Our estimates indicate that the Soviet Union should be able in the near future to finance its hard currency deficits through gold sales and drawings on Western credits. We, therefore, expect the U.S.S.R. to remain creditworthy. While we do not expect any of the East European countries to default, their hard currency indebtedness should be monitored more closely. Close cooperation in this monitoring effort among the nations participating in this Summit would help to safeguard our economic interests.

Italy

The basic economic situation in Italy shows a dramatic improvement from last year when runaway inflation combined with intolerably high external deficits caused severe doubts about the international credit-worthiness of Italy. Wholesale prices have been stable since late last year; the rise in consumer prices, which had been at annual rates of 25-30 percent last year, has moderated to a 8-9 percent annual rate. And the external balance has improved dramatically as the current account moved from a $10 billion deficit (annual rate) in the first half of 1974 to a deficit of approximately $1 billion (annual rate) in the first half of this year, partly because of an improvement in Italy's export share.

But this improvement was bought at the expense of a large fall in domestic demand. Through August, the fall in industrial production averaged over 13 percent from the preceding year's level and imports have fallen largely because of the weak pace of economic activity. Although unemployment began to rise substantially only in the second quarter of this year, short-time work has doubled. Furthermore, Italian workers employed in other EEC countries are being laid off in increasing numbers. The socio-political situation no doubt was a major factor in the Italian Government's decision to put in place a reflationary package well before demand in neighboring countries has begun to revive. Restrictive policies had been gradually relaxed since the beginning of the year. The measures announced in late August, however, are broadly expansionary and amount to a direct stimulus equal to about 3 percent of GDP. Because of the still precarious external situation, the program includes relatively large financial incentives for exports. The major impact of the measures is likely to be felt next year and their effect on this year's output may be marginal.

It is likely, however, that the new reflationary measures will have little, if any effect, on labor peace this fall. Moreover, they may aggravate the improving inflationary situation as well as upset the external balance. The program may increase the 1976 budget deficit beyond the 9 percent of GDP currently estimated by the Italian Government. Financing requirements of this sort could well cause problems, in particular if external borrowing is required.

U.K.

The decline in output in the United Kingdom, which until the spring was somewhat less severe than in other major industrial countries, has since then accelerated in part because of a shift in the Government's attitude towards rising unemployment. Real GNP (s.a.) in the second quarter of this year was 10 percent below the first quarter at an annual rate and industrial production in July-August was about 9 percent below a year ago.

The only element of total demand that has continued to expand is public expenditure. Investment expenditure, because of large margins of spare capacity (it is reported that capacity utilization is down to levels recorded during the 3- day work week in early 1974) and a poor outlook for profitability, is particularly weak. Private consumption expenditures have been falling recently and the earlier stimulus that was provided by an improvement in net exports was reversed in recent months. In addition, very substantial inventory decumulation has been putting further downward pressure on output. Public sector expenditure has increased slowly, while private consumption has fallen off slightly. In spite of declining export demand net exports, in real terms, improved substantially in the first half of this year due to the even greater fall-off in imports.

Inflation in Britain still shows alarming, albeit slowing, rates of increase and government policy is currently primarily geared towards its control. Prices at the retail level, fueled by 30 percent year-over-year wage increases, are more than 25 percent above year-earlier levels. Additionally, wholesale prices, which are levelling off or even decreasing in some countries, continue to climb in the United Kingdom at two-digit rates largely due to wage rises and the fact that the devaluation of sterling has increased many input costs.

Policy had been accomodating through July, but was thereafter tightened up a notch. An anti-inflation plan was announced on August 1 which is designed to bring inflation down to an annual rate of increase of 10 percent by the end of next year, principally through limitations on pay increases. This program appears to be meeting with considerably wider acceptance by the general public, and, more importantly, by the trade unions, than had earlier attempts to moderate wage increases by voluntary restraints. Despite growing unemployment, the government has so far not been pressured into significant reflationary action. In September, a very modest £ 175 million package was put into effect to provide some relief for the unemployed and additional resources for industrial investment.

Because of the inflationary situation, the British authorities, more than those of any other major country, were relying on and actively promoting an export-led expansion. However, because demand in Britain's main trading partners continues to be weak, not much help can be expected from this side until early next year at best. Real disposable income will undoubtedly decline if the restraint package is accepted. And if the savings rate does not significantly fall from its current historically high level consumption expenditures will fall as well. Unemployment and short-time work consequently could continue to increase.

Doubts that the British Government can withstand mounting pressures to reflate the economy before inflation has been brought under control and a mounting budget deficit equalling about 12 percent of GNP -- partly as a consequence of the fall in activity -- have put pressure on the exchange rate. In recent weeks sterling has fallen to record lows on the foreign currency exchanges. This devaluation of sterling is putting further pressure on domestic price levels and is aggravating the fall in real incomes.

Canada

Policy attitudes in Canada are being constrained more than elsewhere (except in the United Kingdom) by the resumption of inflationary pressures and a growing current account deficit, which could reach US $6 billion this year. Until the summer there had been a significant improvement in the Canadian price performance, especially at the wholesale level. But prices began to accelerate in early summer, partly because of increases in domestic oil prices and taxes on gasoline. And mounting cost pressures increased the likelihood that prices might continue to rise at undesirable rates. Wage rates in the second quarter of this year were rising at annual rates exceeding 20 percent and wage costs have already been driven above those prevailing in the United States in some industries. The consequent loss in competitive position has added further pressure on the Canadian trade balance.

Against this background, the Canadian authorities instituted mandatory wage and price controls on October 14. Annual wage increases generally will be limited to 10 percent (with a C $2,400-ceiling), while price rises will have to be justified by higher production costs. Controls extend also to dividends and interest rates.

Real GNP (s.a.) in Canada fell at an annual rate of 5.7 percent between the last quarter of 1974 and the first quarter of this year, mainly because of a 24 percent (a.r.) decline in exports. The fall-off in Canadian exports has resulted largely from the weak demand situation in the United States. Moreover, because the prices of primary commodities -- which represent about one-third of the value of total Canadian exports -- had been falling, Canada's terms of trade weakened steadily, thereby reinforcing the deterioration in the trade balance.

Recent indicators, however, point to a resumption, albeit a slow one, in Canadian economic activity. GNP grew slightly in the second quarter, and final domestic demand rose at a 5-1/2 percent annual rate in the first quarter. Housing demand appears to be improving and order inflows to the manufacturing industries have begun to rise. In addition, inventories, though still high, may be declining at diminishing rates. Finally, rising demand for grain is turning the terms of trade in Canada's favor and is bringing about a rise in the volume of exports.

Until recently, policy in Canada had been relatively expansionary and the budget announced in late June represented no change from this stance. Taxes were cut in early 1975 and rebates on 1974 taxes, totaling US $800 million, were paid in the second quarter. Interest rates eased until the first quarter of this year, however, the authorities have subsequently permitted a rise in short-term rates in order to ensure the capital inflow necessary to cover this year's large current account deficit. In early September, the Bank of Canada raised the discount rate 0.75 percentage point to 9 percent.

The growth in real GNP may slowly pick up in the second half of the year, influenced by policy measures already taken and an improvement in the external sector. Private consumption expenditure should be buoyed by the tax adjustments and by recent increases in real wages. However, a rising savings rate is having a damping influence. Furthermore, contrary to earlier expectations, investment demand, even for energy, is not likely to be an important factor early in the upturn despite the fact that the June budget contains a 5 percent investment tax credit on the cost of new building, machinery and equipment. The recently announced incomes policy likely will put a further constraint on the growth of final demand.

Japan

The economic decline in Japan has been deeper than at any time since World War II. Although the slide in activity appears to have bottomed out early this year, the recovery appears fragile. So far, the resumption in growth is being carried by government spending, a revival of residential construction, and a slowing down in the pace of inventory reduction.

Industrial production rose in each of the five months ending July, but was off in August. Final private demand remains weak. Personal incomes are rising only slowly, partly because of increasing short-time work and much reduced bonus payments (which constitute one-fifth of wage incomes) and partly because the May wage settlements were remarkably modest by Japanese standards. Partly because of the uncertain outlook for increases in personal income, savings rates have shot up to historic highs.

Inflation rates have moderated remarkably from the alarming pace registered last year. The acceleration in price increases, however, has put substantial pressure on business profit margins. Because of the deteriorating profit situation and the large amount of spare industrial capacity, business investment demand so far has failed to respond to the easier monetary policy stance. Rising numbers of business failures, some of which like the collapse of the Kohjin Company, involve large and important concerns, have added to the general cautious business attitude. Any signs of revival of demand are likely to be met first by price rises in attempts to restore profit margins rather than by an upward revisions of investment plans.

Japanese exports have declined since late 1974, in line with the general shrinkage in world trade, but imports have fallen also, so that the trade surplus during the first half of this year ran at an annual rate of \$8 billion as compared with a \$6-1/4 billion (annual rate) deficit registered in the first half of 1974. In July-August exports fell while imports stabilized, so that the trade surplus shrank to a still substantial \$4-1/2 billion rate. Despite the large improvement in the Japanese trade position, which stems not only from low domestic demand, but also from a rise in the export market share of Japan, the Japanese authorities are likely to consider the external balance a constraint to reflationary action. The recent rise in the OPEC export price for oil, which will have a relatively greater impact on Japanese import payments than on those of most other industrial countries, re-enforces this view.

In mid-September, the Japanese Government outlined its fourth reflationary program. Its direct costs equal about

1-1/2 percent of GNP and it is designed eventually to increase domestic demand by $10 billion. However, it appears that the additional funds sought may in fact be necessary just to maintain government spending at current levels as appropriations for the first three reflationary programs are being exhausted at a rapid rate.

Monetary policy, so far, has been eased very cautiously. Interest rates continue high by historic standards and some restraint on bank lending continues to be imposed. At this time, it appears that economic recovery in Japan will proceed at a much more moderate pace than in the past. The limits to potential growth that are currently being perceived as a result of population pressure, structural problems and the high cost of energy are being widely publicized by the Government. Uncertainties about how the adjustment to substantially lower longer-term rates of growth might be achieved clearly are compounding current hesitancies in business investment planning.

TAB A-5

Current Situation.

New York City and New York State officials are working with the labor unions and the financial community to develop a financial and fiscal package to prevent a default in December. Such efforts make clear that the financial resources to prevent default do exist at the appropriate levels of government. However, we do not know whether these efforts will succeed.

Federal Government's Position.

The Federal Government will not provide financial assistance to prevent a default. Such an assistance program would not help the people of New York City, but would only reward the politicians responsible for the mismanagement and the large investors who have been enjoying generous tax-exempt returns. In addition, such a program would involve impermissible and undesirable Federal intrusion into local affairs.

Instead, we have proposed legislation providing for an orderly restructuring of New York City's finances. Under the legislation, New York City would file two plans with a Federal court: one to develop a balanced budget and the other to restructure the City's outstanding debt. If the balanced budget plan is acceptable to the court, the court would then conduct a proceeding to implement the restructuring of the debt. During the course of the proceeding, if additional cash is required, the court could authorize the issuance of priority debt certificates to meet such cash needs. If necessary, the Federal Government will work with the court to insure that services essential to the protection of life and property were provided.

Impact and Meaning of Default.

It is our conclusion that a default by New York City would not have a permanent and serious impact upon our banking system, our financial markets or our economy. It would not reflect upon the ability of other major economic units in our society to meet their obligations as they come due. Under the U.S. system of government, the Federal Government has a relatively minor role in the financing of local units of Government. Accordingly, the inability of any local unit of government, including New York City, to pay its bills does not reflect on the health of the Federal Government or the U.S. national economy.

Comparision to Other Situations in European Countries.

This must be contrasted with the situation in France and Germany. For example, in West Germany local communities are constitutionally guaranteed a percentage of the yield from various federal taxes even though they have independent taxing power and receive substantial subsidies from the equivalent of state governments (Laender). Moreover, under the German constitutional structure, the states are considerably less independent from Federal Government intervention in administrative and financial matters than is the case in the United States. In France the municipalities (communes) are even more clearly dependent on the Federal Government for financial support since the municipal authorities are subject, particularly in financial matters, to the extensive control of the Minister of the Interior.

TAB B - Trade

TAB B-1

TRADE

BACKGROUND AND ANALYSIS TO SUPPORT U.S. POSITION

Ministers from over 100 countries met in September of 1973 in Tokyo to declare their intention to engage in a "Tokyo Round" of multilateral trade negotiations aimed at the expansion of trade and the reform of international trade rule. The "Tokyo Declaration" adopted by the Ministers set forth a detailed scope for negotiations for which a time schedule concluding by the end of 1975 was established.

The conclusion of these negotiations has been delayed because Congress did not provide the necessary negotiating authority until the end of 1974, and the economic situation increasingly deteriorated in the interim. With appropriate commitment they could, however, be completed by mid 1977.

The recent delay in economic recovery is threatening to further slow the pace of the negotiations. The Summit needs to rekindle the resolve of the major countries to carry on actively with these negotiations. While the current period of relatively high unemployment everywhere is an inauspicious time to conclude an agreement, a considerable amount of useful preparatory work could be carried out in the coming year. With anticipated economic recovery, countries could reach the final negotiating stage in a year.

A strong supportive statement for the Multilateral Trade Negotiations by the heads of government attending the Summit could provide the necessary impetus for reaching the final negotiating stage in 1977. Such a statement could be based on the Tokyo Declaration, which aimed to "achieve the expansion and ever-greater liberalization of world trade. . . through the progressive dismantling of obstacles to trade and the improvement of the international framework for the conduct of world trade." It might also reflect the following themes--

a. International trade is, to a large extent, the glue which cements relations amongst the Western Nations. It is also fundamental to Western efforts to establish more stable and beneficial relations between North and South and between East and West.

b. In broad policy terms, reductions in trade barriers in the MTN reflect a common interest of the participants in bringing about a more efficient allocation of resources and in reducing inflationary pressures.

c. Progress in the MTN can assist all countries in withstanding protectionist pressures resulting from the global recession.

Finally, the statement should call on trade officials to do whatever is necessary to carry these negotiations forward on a timely basis.

A strong supportive statement for the MTN could provide useful guidance to the senior trade officials who will be attending the December 9 meeting of the Trade Negotiation Committee, to review recent progress and to chart a course for the coming year. Prospects for productive discussious at that meeting are currently questionable. With a new impetus for the Summit, however, the December meeting might be an appropriate occasion for achieving a broad international consensus on a strategy, involving active pursuit of preliminary negotiations in 1976 and reaching the final negotiating stage for the negotiations in 1977.

TAB B-2

Link Between Multilateral Trade Negotiations and International Monetary Reform

There are indications that France may take the position at the summit that progress in the multilateral trade negotiations is dependent on US/EC agreement on international monetary reform. France has insisted in the past that trade barriers cannot be reduced as long as exchange rates remain unstable; at their insistence this link was included in the Tokyo Declaration, which serves as the terms of reference for the multilateral trade negotiations. The relevant passage is as follows:

> "The policy of liberalizing world trade cannot be carried out successfully in the absence of parallel efforts to set up a monetary system which shields the world economy from the shocks and imbalances which have previously occurred. The Ministers will not lose sight of the fact that the efforts which are to be made in the trade field imply continuing efforts to maintain orderly conditions and to establish a durable and equitable monetary system."

At U.S. insistence, the Tokyo Declaration also established the reverse linkage, by noting that "the liberalization of trade. . . should facilitate the orderly functioning of the monetary system."

If the dispute between France and the U.S. on international monetary reform is not resolved and France uses the monetary/trade link as a pretext for an uncooperative stance in the multilateral trade negotiations, we should point out that:

--the Tokyo Declaration provides for parallel efforts in the trade and monetary areas, not a requirement that one be resolved before the other.

--progress in the multilateral trade negotiations is essential for solving trade disputes which could disrupt foreign exchange markets and for improving the ability of the trading system to correct trade imbalances.

TAB B-3

US-EC Differences over Agricultural Trade

There are major differences between the United States and the EC over the scope and the goals of agricultural negotiations in the multilateral trade negotiations. These differences are based both on a conflict of commerical interest in this area, and a sharp difference in the philosophical approach to the management of agriculture. These differences resulted in disappointing results for agriculture in the Kennedy Round. Faced with a choice of either accepting liberalization of industrial trade or failure of the whole Kennedy Round, the U.S. Government chose to accept the former. To avoid a repetition of this experience, the Congress insisted in the Trade Act of 1974 that agriculture and industry be negotiated together.

The United States is one of the world's most efficient producers of agricultural products. Exports of farm products are vital to the maintenance of farm income, to the continuation of the Administration's market-oriented farm policy, and to the balance of payments. The United States could export more of its agricultural goods if foreign agricultural trade barriers could be reduced.

The EC, though a relatively high cost producer of agricultural goods, has an explicit objective of achieving maximum self-sufficiency in agricultural production, and for slowing down the decline of the agricultural population. The EC common agricultural policy (CAP) seeks to achieve this objective by maintaining relatively high prices for agricultural goods, by keeping out lower priced foreign agricultural goods, and by subsidizing surplus agricultural goods into export markets. They are opposed to the liberalization of agricultural trade, because it would restrict their ability to implement the CAP. Their resistance to any changes that could affect the CAP reflects the fact that the CAP is the major achievement of 17 years work toward European political and economic unity, and the fact that one of the main beneficiaries of the current system is France, one of the most efficient agricultural producers in the EC. The EC has, therefore, sought to isolate agriculture in the negotiations and to obstruct efforts aimed at agricultural trade liberalization.

Reflecting this underlying difference in commercial interests and philosophy, the EC and Community have had series of deadlocks over the organization of agricultural negotiations. The latest deadlock persists despite the fact that STR negotiated two compromise agreements with top officials in the EC, only to have implementation blocked by France.

The most recent Dent/Soames compromise would have permitted work on agriculture to proceed in the MTN by papering over the fundamental differences between EC insistence that agriculture be negotiated separately and U.S. Insistence that agriculture and industry be negotiated together. This compromise provided for:

--"collaboration" between Group Agriculture and other MTN Groups to resolve differences;

--"communication" of reports on Group Agriculture work to the other groups on a timely and continuous basis.

The French continue to object particularly to the concept of "collaboration," arguing that this would undermine their position. All other member states of the European Community are willing to accept this compromise.

It is important to communicate to the EC leaders at the Summit, in particular to President Giscard d'Estaing, the determination of the United States to negotiate a reduction of agricultural trade barriers in the MTN, and the great importance we attach to this issue.

TAB B-4

GOVERNMENT COMPETITION IN FINANCING EXPORTS
(Gentlemen's Agreement)

ISSUE

For more than two years, the U.S., EC, and Japan have been conducting negotiations on an international agreement on export credits (Gentlemen's Agreement). The aim of these negotiations has been to establish comprehensive parameters on all facets of official export credit financing in order to dampen undue international competition for exports based on financing terms. In this regard, primary emphasis has been directed at establishing guidelines which would halt the trend of granting longer maturities on official credits and which would further reduce the discrepancy between the 7.5 percent floor interest rate on official credits as opposed to commercial rates which can exceed 10 percent.

These intentions notwithstanding, in the past year, we have witnessed:

--the granting of massive credit lines ($7.7 billion in total) to the USSR from the Japanese, French, British, and Canadians at interest rates in the 7.2 to 7.3 percent range;

--the introduction of additional export credit schemes in the U.K. and France; and

--a general rise in the spending levels for export credits.

There is currently a stalemate in the negotiations owing to the inability to establish an interest rate/maturity tradeoff on official credits acceptable to the French and the U.S. In hopes of breaking this stalement, the Germans and perhaps the British plan to raise the issue at the Economic Summit.

BACKGROUND

On October 22, 1974, France, Germany, Italy, Japan, the U.K., and the U.S. initialled the "Washington Minute" in which signatory countries pledged, as a general rule: to establish a minimum interest rate of 7.5 percent on official export credit; and not to extend official credit in excess of 5 years' maturity to each other or to rich oil exporting countries.

This development was thought to have signalled that major exporting countries had recognized that the extension of subsidized credit among themselves and to other "wealthy" countries was unwarranted and that progress on the more comprehensive Gentlemen's Agreement on export credit would proceed to and rapid and successful conclusion. Unfortunately, although the economic justification remains for limiting government support for exports in general and for exports to the USSR in particular, several obstacles have precluded finalizing a comprehensive agreement. In addition, the 5 year maturity limitation stipulated in the Washington Minute was never truly implemented.

The immediate obstacle blocking further progress is the trade-off between limits on rates of interest and length of maturities--the major competitive tools employed by all export credit institutions. As it now stands, the U.S. has advanced several proposals for consideration by the E.C. and Japan. Reaction has been positive from all countries but France. France, influenced greatly by its own economic recession and political pressures to maintain low interest rates, finds none of the U.S. proposals to its liking. The French view the interest rate floor proposed by the U.S. as too high and the maturity limitations as too lenient. Intra-EC discussions have thus far failed to move the French, and we are of the opinion that additional compromises in the U.S. position on maturity limitations would inhibit Eximbank's ability to keep U.S. exporters competitive.

Virtually all negotiating nations genuinely desire to limit government support for exports. However, no country can unilaterally implement more stringent guidelines, given the necessity of meeting competitive offers and each is somewhat fearful of giving up too much flexibility vis-a-vis its major competitors. Some are advocating a very limited agreement; however, this solution bears little merit. The only viable means to limiting government support for exports is a comprehensive agreement in a internationally agreed context.

Any agreement which neglects to institute guidelines on all facets of official export financing could be easily circumvented. For the purpose of this Economic Summit, the President should seek concurrence of other Heads of State on the following points:

(1) Loans to the USSR should carry no more concessionary terms than are applicable elsewhere and, therefore, interest rates on lines of credit to the USSR should be adjusted upward to at least 7.5 percent at the earliest opportunity provided by the terms of such agreements.

(2) A Gentlemen's Agreement should be concluded on the basis of any one of the four U.S. proposals with a target signing date of January 1, 1976.

TAB B-5

POSSIBLE TRADE RESTRICTIONS BY THE UK AND ITALY

The UK and Italy may announce the imposition of broad import restrictions either before the summit, or at the summit. In both countries, considerable political pressures are being brought to bear on the government to reverse tight demand management policies, which have resulted in a considerable improvement of their balance of payments and rate of inflation in the past year. Should these countries impose trade restrictions, they would be designed to moderate any deterioration of the balance of payments that would follow from more expansionary economic policies.

The imposition of import restrictions by the UK and Italy should be opposed vigorously, primarily because it would be a false panacea for insufficient internal fiscal and monetary discipline. It would also set a bad precedent for other countries, since it would be a classical beggar-thy-neighbor policy designed to shore up domestic employment at the expense of employment in other countries.

Should the controls be imposed before the summit, the action should be deplored and a strong plea should be made for in-dept consultations.

Allegations of U.S. protectionism

Foreign governments have voiced increasing concern about what they see as a new protectionist trend in the United States. They base their fear on a sharp increase in private petitions for import relief under escape clause provisions and for remedial actions against unfair trade practices under a broad range of U.S. trade laws, including countervailing duty, anti-dumping, and unfair trade practices provisions.

The petitions have led to investigations of the facts in each case by the appropriate government agencies, as provided by U.S. law. While only a minor case involving Poland has so far resulted in any remedial actions, many foreign governments feel that the willingness of the government to pursue a public investigation of these cases is in itself a protectionist act. Moreover, they are suspicious about the future disposition by the government of all the outstanding cases. In particular, they are aware that there has been a long-standing disagreement with the United States over the criteria to be used in deciding whether or not a foreign subsidy is unfair, warranting the application of countervailing or anti-dumping duties. They are likely to argue that actions based on U.S. criteria of fairness are in themselves unfair.

Other government leaders are certain to press the President at the Summit to use whatever discretion he has within the law to avoid or limit restrictive remedial actions. They are also likely to press the United States to bring its administration of remedial border measures into compliance with international obligations. They could argue that protectionism in the United States justified their own use of remedial import measures.

The United States should counter these arguments by dispelling unwarranted foreign fears, putting potential U.S. actions into perspective, and assuring other countries that the United States will act responsibly in carrying out its trade laws.

In passing the Trade Act, the Congress granted the most liberal negotiating authority granted any President. However, in granting this authority, the Congress called for broader public participation in the formulation of trade policy and for a more open process and more responsive attitude by the government in dealing with private sector grievances. The recent increase in petitions is in large part an effort by the private sector to test these new provisions of the Trade Act. In order to retain U.S. support for a liberal trade policy, it is essential that the U.S. Government deal with these cases in an open and responsive way, including a full investigation of all petitions received, and responsive attitude to all legitimate private grievances.

At the same time, the U.S. Government intends to act responsibly, fully cognizant of the delicacy of the current international economic situation.

TAB B-6

SUMMARY OF ESCAPE CLAUSE, ANTI-DUMPING, COUNTERVAILING DUTY, AND UNFAIR IMPORT PRACTICES, COMPLAINTS, INVESTIGATIONS, AND REMEDIES 1973-1974-1975

	1973	1974	1975
New Complaints Received			
Escape Clause Petitions	0	0	10
Dumping complaints	34	10	11
Bounties and subsidies complaints	24	3	1
Unfair import practices complaints*	4	0	4
Investigations			
Escape clause petitions	4	1	2
Dumping complaints			
Treasury	25	11	1
Tariff Commission	23	6	1
Bounty or subsidies complaints	2	4	20
Unfair import practices*	18	18	1
Preliminary	13	11	1
Full	5	7	0
Finding of investigation			
Negative			
Escape clause	1	1	1
Dumping	9	2	--
Bounties or Subsidies	0	1	9
Unfair import practices*	0	1	--
Affirmative			
Escape clause	1	1	1
Dumping	11	6	--
Injury	13	0	--
Bounties or subsidies	2	1	12
Unfair import practices*	3	0	--