



CONFIDENTIAL

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PRIME MINISTER

*Prime Minister*

*It is not clear what are the full implications of X on para 6; and we have asked for FCO advice from Peter Jay.*

*K.R.S.  
30/vi*

*Harlow  
If seen to be necessary.*

Bonn Summit

You may like to have this rather impressionistic account of the preparatory meeting which I attended in Bonn on 26th, 27th and 28th June.

2. It went as well as could be expected and I attach a draft declaration which we agreed - ad referendum of course to our Heads of Government - to serve as a starting point for any further Communique drafting during the Summit itself.

3. You will see from this that the concept of your Five Point Plan, to which all contribute and whose total effect is greater than the sum of its parts, is still very much alive. We began by throwing out a very bad German draft. We then worked on an American draft which we succeeded in substantially shortening and improving. There was a good deal of give and take. There are inevitably one or two passages which we would prefer to put differently but that applies to other countries also. The most difficult passage for us was paragraph 17 but, as finally agreed, this does not go beyond the OECD Communique and makes it quite clear that structural change can only happen "over time".

4. The section on Growth, Employment and Inflation looks short in relation to the succeeding sections on Energy, Trade and Relations with Developing Countries. This is because there are some important sections in square brackets which can only be completed at the Summit itself. It was however satisfactory that those concerned accepted that their Principals would have something to contribute on these key issues.

5. It now seems clear that Schmidt will offer something on Growth provided the rest of the package comes up to scratch. This trade off is important for him not just because he feels it essential that the Americans raise oil prices but also because he will need domestically to justify in a wider context the action he is taking. The amount he will add to demand is uncertain. The figure of 12 billion deutschmarks has been openly mentioned but Schmidt has probably reached no final decision. Hiss was however putting a good deal of emphasis on



ensuring continued expansion rather than short lived stimulation.

6. Owen claimed that President Carter would be in a position to deliver a commitment to raise domestic oil prices to world levels despite the recent Senate  
x | vote ("on the wrong Bill at the wrong time") provided (i) Schmidt took action on Growth, (ii) the Japanese acted on their surplus and (iii) he was clear that a successful conclusion to the MTNs would be reached. I hope Owen is right: but in some ways I now feel a little more confident that Schmidt will be in a position  
| to fulfill his side of the bargain than I do about President Carter.

7. The Japanese will announce an increase in aid. It is much less clear what they will do on Growth and their surplus. Accordingly we had a restricted and private meeting with them at which the message was put to them in almost brutal terms. Solomon said that the least Carter would regard as satisfactory would be a promise at the Summit to have a supplementary budget adding three trillion yen (=  $1-1\frac{1}{2}$  per cent of GDP) to domestic demand.

8. We had no discussion about the substance of the MTNs but a great deal of talk about their relationship to the Summit. No-one thinks that the MTNs can be concluded by the Summit, but almost everyone is trying to use the Summit in different ways to increase their bargaining power in the MTNs. We did our best to discourage any belief that major outstanding MTN issues could be settled at the Summit itself. We were not isolated in the preparatory meeting on Trade issues and in some ways the French were even less co-operative than us. But I think we have to face the fact that there will be real difficulty (particularly for us) if there has not been some substantial progress in the MTNs before the Summit.

9. I have reported separately that not a single country would support us on the idea of announcing concerted action on RTAs. The Canadians said they had done it, the Americans took refuge in constitutional difficulties and the rest were dragging their feet.

10. In short I think there is now a prospect of a successful Summit provided Carter can make a credible commitment on Energy and provided the MTN issue can be ~~diff~~used.



11. Finally you may like to glance through the interview which Schmidt gave to Business Week and which is also attached. Hiss drew our attention particularly to it as representing his present attitude. Ken Couzens is going to prepare a commentary on some of the points made in it.

*Jeh*

(John Hunt)

30th June, 1978

CONQUEROR  
LONDON

DRAFT DECLARATION

The Heads of State and Government of Canada, the Federal Republic of Germany, France, Italy, Japan, the United Kingdom of Great Britain and Northern Ireland and the United States of America met in Bonn on 16th and 17th July 1978. The European Community was represented by the President of the European Council and by the President of the European Commission for discussion of matters within the Community's competence.

1. We agreed on a comprehensive strategy, covering growth, employment and inflation, international monetary policy, energy, trade and other issues of particular <sup>concern</sup> interest to developing countries. We must create more jobs and fight inflation, strengthen international trading and reduce balance of payments disequilibria. We are dealing with longterm problems, which will only yield to sustained efforts. This strategy is a coherent whole, whose parts are interdependent. To this strategy, each of our countries can contribute; from it, each can benefit.

Growth, Employment and Inflation

2. We are concerned, above all, about worldwide unemployment-- because it has been at too high a level for many years, because it hits hardest at the most vulnerable sections of the population, because its economic cost is high and its human cost higher still.

We will act, through measures to assure growth and develop needed skills, to increase employment. In so doing, we will build on the progress that has already been made in the fight on inflation and will seek new successes in that fight. This is needed to strengthen confidence and encourage the flow of private investment, on which economic progress depends. We will also seek to encourage private investment reducing impediments, both domestically and internationally.

3. A program of different actions by countries that face different conditions is needed to assure steady non-inflationary growth:

-- In countries whose balance of payments situation and inflation rate does not impose special restrictions, this requires a faster rise in domestic demand. [The Prime Minister of Japan has indicated... The Chancellor of the Federal Republic of Germany has indicated....]

[Bremen: to be filled in]

-- In countries where rising prices and costs are creating strong pressures, this means taking new measures against inflation.

[The President of the United States has indicated....]

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## ENERGY

4. In spite of some improvement the present energy situation remains unsatisfactory. Much more needs to be done.
5. Industrial countries must reduce their consumption of imported oil, particularly those whose imports have been increasing in recent years. The President of the United States has indicated...7
6. We hope that the oil exporting countries will continue to contribute to a stable world energy situation.
7. Looking to the longer term, our countries will review their national energy programmes with a view to speeding them up. General energy targets can serve as useful measures of the progress achieved.
8. Private and public investment to produce energy and to use it more efficiently within the industrial world should be increased. This can contribute significantly to economic growth.
9. The further development of nuclear energy is indispensable, and the slippage in the execution of nuclear power programs must be reversed. To promote the peaceful use of nuclear energy and reduce the risk of nuclear proliferation, the nuclear fuel cycle studies initiated at the London Summit should be pursued. Stable and lasting fuel supply for nuclear power plants is essential; existing agreements to this end should be respected.
10. Coal should play an increasingly important role in the long term.  
*medium*
11. Joint or coordinated energy research and development should be carried out to hasten the development of new, including renewable, energy sources and the more efficient use of existing sources.

12. In energy development regard must be paid to the environment and human safety of the population.
13. To help developing countries we will intensify our national development assistance programs in the energy field. We also intend to develop a coordinated effort to bring into use renewable energy technologies. We invite other countries to participate.
14. We invite the World Bank to examine how international coordination of assistance for developing countries in the energy field can be improved, to explore ways in which its activities in this field can be made increasingly responsive to the needs of the developing countries and to examine whether new approaches would be useful.

TRADE

15. [ MTNs: to be filled in ]
16. We note with satisfaction the renewal of the pledge to maintain an open market oriented economic system made by the OECD Council of Ministers last month. Today's world economic problems cannot be solved by relapsing into open or concealed protectionism.
17. We welcome the statement on positive adjustment policy made by the OECD Ministers. There must be a readiness over time, to accept and facilitate structural change. Measures to prevent such change perpetuate economic inefficiency, place the burden of structural change on trading partners, and inhibit the integration of developing countries into the world economy. We are determined in our industrial, social, structural, and regional policy initiatives to help sectors in difficulties, without interfering with international competition and trade flows.
18. We note the need for countries with large current accounts deficits to increase exports and for countries with large current accounts surpluses to facilitate increases in imports. [The President of the United States and the Prime Minister of Japan have indicated ....]
19. We underline our willingness to increase our cooperation in the field of foreign private investment. We will intensify work for further improvement of the 1976 OECD Guidelines.
20. In the context of expanding world economic activity we recognize the requirement for better access to our markets for the products of the developing countries. At the same time we look to increasing readiness on the part of the more advanced developing countries to open their markets to imports.



RELATIONS WITH DEVELOPING COUNTRIES

21. Success in our efforts to strengthen our economies will benefit them, and their economic progress will benefit us. This calls for joint action on the basis of shared responsibility.
22. In the years ahead the developing countries, particularly those most in need, can count on us for an increased flow of financial assistance and other resources for their development. They should also be able to count on other countries suitably placed, including the Comecon countries.

[The Prime Minister of Japan has indicated ...]

23. The poorer developing countries require increased concessional aid. We support the soft loan funds of the World Bank and the three regional development banks. We pledge our governments to support replenishment of the International Development Association on a scale that would permit its lending to rise annually in real terms.
24. As regards the more advanced developing countries, we renew our pledge that to support replenishment of the multilateral development banks' resources, on the scale needed to meet the growing needs for loans on commercial terms. We will encourage governmental and private co-financing of development projects with these banks.

The cooperation of the developing countries in creating a good investment climate and adequate protection for foreign investment is required if foreign private investment is to play its effective role in generating economic growth and in stimulating the transfer of technology.

25. Continued efforts should be made in the negotiations on a Common Fund and for the conclusion of individual commodity agreements to achieve constructive results. Studies relating to the stabilization of export earnings are under way.

INTERNATIONAL MONETARY POLICY

- 26 . The erratic behaviour of the exchange markets in recent months has had a damaging effect on confidence, investment and growth throughout the world. Implementation of the policies described above in the framework of a concerted program will help to bring about a better pattern of world payments balances and lead to greater stability in international exchange markets. This stability will in turn improve confidence and the environment for sustained economic growth.
- 27 . Although exchange rates need to respond to changes in underlying economic and financial conditions among nations, our monetary authorities will continue to intervene to the extent necessary to counter disorderly conditions in the exchange markets. They will maintain extensive consultation to enhance these efforts' effectiveness. We will support implementation of the surveillance by the International Monetary Fund in order to promote effective functioning of the international monetary system.
- 28 . Essentially exchange rate stability can only be achieved by attacking the fundamental problems which have contributed to the present large balance of payments deficits and surpluses.

## CONCLUSION

29 . It has been our combined purpose to attack the fundamental economic problems that our countries confront. We have agreed that world growth should be further increased, particularly by those countries where the balance of payments is not a constraint. We have reaffirmed our determination to continue to fight inflation in all our countries. We have agreed on action on energy which will both safeguard the future and help to reduce current balance of payments deficits. We have

[ MTNs .... ]

and reaffirmed our determination not to attempt to solve our present problems by the self-defeating route of trade restrictions. And we have underlined our concern for cooperating with developing countries to foster greater economic interdependence and world prosperity. We are confident that the steps we are taking in all these areas will lead to much greater underlying exchange market stability. This in turn will help to reduce present tensions, inflationary pressures and unemployment levels and improve confidence and the prospects for sustainable growth throughout the world.

30 . We cannot hope to achieve our purposes alone. We shall work closely with other countries and within the appropriate international institutions. Those among us whose countries are members of the European Community intend to make their efforts within its framework.

31 . The measures on which we have agreed are mutually reinforcing. Their total effect should thus be more than the sum of their parts.

We will now seek parliamentary and public support for these measures .