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Second Session of Summit Meeting (Monday, June 28, 9:00 a.m.)

President Ford: Today we have before us four issues: trade, East-West relations, North-South relations, and energy. Prime Minister Miki will break the ice on trade.

Prime Minister Miki: In discussing trade at Rambouillet, I emphasized the following three points: Each nation should take policies which insure economic recovery; while pursuing recovery, nations should refrain from import restrictions; and we should all recognize the need for concluding the MTN in 1977. We reached a consensus on all three of these objectives. Since then the economies of the world have turned around for the better. And we should congratulate ourselves on this happy turn of events. But we must continue to make efforts to expand our trade and not cow-tow to protectionism. If the recovery is to be sustained, we must continue to expand trade under a free trade banner. In the MTN, developments are far from satisfactory. Points of disagreements still remain on fundamental issues. It is the responsibility of the seven nations here to insure success. The future destiny of the MTN lies within our initiative. Failure would disrupt the free trade movement in the world. Now there is recovery and free trade is expanding. It will be constructive to bring the MTN to fruition in 1977.

Investment by private enterprise is another important ingredient in stabilizing economic development, leading to a more rational distribution of resources. It supplements the process of providing funds, job creation and technology transfer, the multinational corporations have contributed a great deal to the development of the world economy. We need to frustrate illegal corporate activities. Profit-seeking enterprises might well be a problem from time to time. I endorse the recently agreed to OECD code. This code represents a further step to a resolution to the problem. We should also pay attention to the ECOSOC and the US Ministerial Task Force. I wish to emphasize the importance of this for investing countries. We should also emphasize the importance of host countries protecting investment and providing a good investment climate.

President Ford: At Rambouillet, agreement was reached to complete the multilateral trade negotiations in 1977. We must redouble our efforts to achieve this important goal. I am convinced that these negotiations are essential to the establishment of a firmer economic partnership among our countries and a sounder relationship with the developing countries.

We have achieved a number of notable successes in keeping an open trading system. We shall be facing continuing problems in the trade area as the recovery surfaces disparities and weaknesses in our several economies. Constructive progress in the multilateral trade negotiations can help us to manage these problems.

We in the United States are concerned by the slow pace of the trade talks now underway in Geneva. We cannot and should not allow short term considerations to impede the efforts of our trade negotiators during 1976. A considerable amount of preparatory work must be completed this year, if we are to conclude the negotiations in 1977.

The United States has shown that it is prepared to take the lead in the work in Geneva. We have put forward a number of important negotiating proposals and would welcome proposals from others.

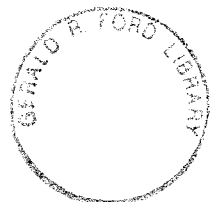
The proposals we have made have been fully discussed with our private advisory groups and the Congress, and their comments have helped to fashion these proposals. Trade is not now an issue in our election campaign, and we do not expect it to become one. Our trade policy is strongly supported by both parties.

A key to progress in the current stage of the negotiations is for us to reach prompt agreement on a tariff cutting formula. My negotiators have put a realistic proposal on the table in Geneva. It calls for a tariff cut greater than that achieved in the Kennedy Round. It was designed to take account of the diverse views of our negotiating partners.

We hope that you will agree to achieve negotiated cuts no less substantial than achieved in the Kennedy Round. Until agreement is reached on a tariff cutting formula, negotiations could be stalled. We must also agree to accelerate progress in reducing non-tariff barriers.

The multilateral trade negotiations offer us an exceptional opportunity to improve the institutional structure of the world trading system. We must undertake efforts to strengthen the GATT, particularly in the resolution of disputes.

Multilateral efforts will be effective only if the countries represented here exercise joint leadership. The OECD and less formal arrangements provide useful means for achieving such cooperation.



We must also seek to assure that the multilateral trade negotiations make an important contribution to improving trading relationships between the developed and developing countries. Constructive participation of the developing countries in these negotiations is important and highly desirable.

Our negotiators must find ways to implement our commitments to provide special and differential rules and treatment to the developing countries. At the same time, they should explore how the developing countries can gradually assume fully the responsibilities of membership in the world trading system.

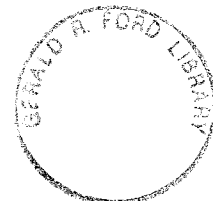
In sum, our challenge is to build a global trading system that will both strengthen the institutional basis for our own economic partnership and establish a framework for cooperation with the developing countries. The major industrial democracies must make every effort to resolve our differences to foster the further development of a more open world trading system.

To maintain the momentum generated at Rambouillet and to achieve an agreed objective of concluding the negotiations in 1977, ministerial level input will be required. I therefore propose that we agree on a ministerial level meeting early next year of all the participants in the Geneva negotiations.

We should also direct our ministers to coordinate a study of international trade in services, and develop appropriate proposals for improving international cooperation with respect to trade in services.

We need to intensify our cooperation in all aspects of trade to meet the challenge now and after successful conclusion of the MTN. Following the MTN, we should consider ways to strengthen relations among the major trading areas to permit maximum reductions in trade barriers in an increasing open system.

Prime Minister Moro: A realistic approach to the problem of trade and to the solution of trade problems must begin with the objective of the development of a world economy linked to the liberalization of trade, which is in turn linked to a removal of restrictions. This can make a contribution to prosperity and to a broader, more adequate distribution of resources. This is particularly significant now in a period marked



by an increase in the volume of world trade after a period of difficulties in national economies. The increase in trade should lessen pressures for protectionist measures. Avoidance of protectionism will also lead to steady non-inflation growth and recovery, whereas protectionism might well reduce the ability of certain countries to restore their balance of trade. I am aware that there are strong domestic internal pressures in this area and it is not always easy to make general international interests prevail; but countries must continue to do their best.

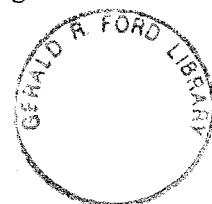
With respect to Italy, we developed means to stop the fall of the lira and to reduce internal liquidity while avoiding a distortion of the market, along with a renewed commitment against trade barriers. We bear in mind the necessity that the economic policies in countries controlling recovery can help countries in difficulty and there is need for support to re-establish the economic balance.

We also need to generate more progress in the Geneva MTN. There has been significant progress in some areas, for example, on tropical products, but further developments are hindered by differences. We must try to achieve progress toward some overall objective with an equal distribution of burdens and opportunities. We should not allow our efforts to fall short. We should bear in mind, also, the medium and short-term needs of the developing countries.

President Ford: Within the last ten days, I have submitted to the Congress proposals for legislation on what we call disclosure to deal with the bribery issue. It will probably be approved during this session. However, there are those in Congress who want to go beyond this to legislation calling for criminal action. At the moment, we do not think it necessary to go that far. We shall see what happens before Congress adjourns.

With respect to the specific issue of investment, I have the following comments.

In the General Agreement on Tariffs and Trade (GATT) we have long accepted that restrictions on trade should be avoided and that we need to cooperate to maintain an open system that serves us all. We should now give comparable attention to supporting a liberal climate for international investment in the face of pressure for increased restrictions. There is a need not only to avoid new unilateral actions but also to eliminate existing restrictions and incentives which distort international capital flows and might lead to a deterioration of the international investment climate. We have all benefitted from and have a continuing stake in the success of an open world market economy.



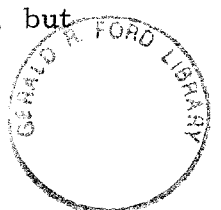
A healthy investment climate requires that we dispel the impression that multinational enterprises are harmful to the interest of home and host countries. Although capital flows often require short-term adjustments, international direct investment should be welcome because of the positive overall contribution it makes to economic prosperity. In that regard, the three-part investment package on international direct investment -- adopted by the Council of Ministers of the OECD last week -- is an important initiative.

In the broader context of international investment, I believe we should encourage liberal treatment for international capital flows. We should take steps to review, and eliminate, government actions which restrict or distort international capital flows and seek relaxation of such restrictions or distortions.

Finally, we must address a very difficult problem. Recent revelations of bribery in international commerce have undermined confidence in the investment climate internationally. Bribery is not only ethically abhorrent, but it also threatens the free market system. The United States has made specific proposals under the auspices of the U. N. Economic and Social Council to give prompt attention to the establishment of an international agreement to deal with this problem. I believe it appropriate and important for us to indicate our collective support for the early development and adoption of such an agreement.

Prime Minister Trudeau: Mr. President, I listened with interest to your points on corruption practices. I praise and support this bold step by the U.S. against corrupt practices. This is indeed a bold step, and one which we would like to take with you. But I have a question -- how effective can this be made if there is no corresponding interest or legislation in countries which need investment and which indulge in corrupt practices? This is almost tantamount to exporting one's morality to another country. It is difficult to impose one's morality in one's own country. In other countries there is no metaphysical basis for such ethics. This is a step you are taking which we would like to support, but do you have cause to believe that it will work? Do the LDCs welcome your initiative?

In my view, some developing countries say you will treat us with greater dignity if you impose such rules. Others say these are century-old practices which cannot be changed. We also realize that industrialized countries use bribes as well as developing countries. If you do this, are you not excluding your firms from some markets? The question is, if you proceed and no one follows, what then? You go to heaven, but you go broke.



President Ford: We in the U.S. have two problems. There is a drive in the U.S. to cleanse all peoples and all organs of government. This is driven by sincere motivations, but it has serious ramifications in the international field. If all nations in good faith take the actions we support, the effects in the developing countries would be significant.

In this respect the Congress reflects the public's view. It may be short-sighted in a competitive world, but it cannot be ignored. There is a conflict between practicality and idealism. That view will require action by the SEC on any legislative initiatives. Disclosure can be a deterrent, but you are right that the impact on competition can be significant.

The views of this group here could have a beneficial impact -- they would have a practical impact on the developing countries.

Prime Minister Trudeau: I agree that we must be moral ourselves. We must have a ideology which holds us together as industrialized democracies. But it is hard to compete with idealism and idealizers -- either Marxist or Socialist. Excuse me, I am sorry about the Socialist part, Jim. Either Marxist, Leninist, or Maoist. Thus, we have to have some ideology to hold us together and we must act in concert if we want to sell our system to the developing countries. Thus, morality should not be absent from our discussions.

One further point on the issue of liberalized investment climate in the world. This is not a point of morality but a point of economics. I agree that such an investment climate would bring greater prosperity if the world were open to investment to go where the returns are greatest. But this is not a realistic position either, because of the fact that many countries want to control their own domestic economic environment.

We in Canada began to control investment in the last three years. We have the highest foreign control per capita of any country. Canadian nationalism is just catching up to what others have been doing for a long while. Every country wants to control its own political environment; others want to control their own economic environment. The idea of a liberal investment climate is not accepted by two-thirds of the world. No government will accept this.

I do not want to undermine your valid economic statements. But it is not true in Canada. We do not allow uncontrolled investments in Canada, and the LDCs certainly do not. So I believe you are setting an unfulfillable dream.



President Ford: If the developing countries do not have such a policy, they will not have the expansion they want and we will not invest there.

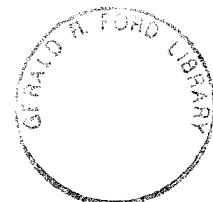
Prime Minister Trudeau: There is still investment in such countries, but less. You make sharing agreements. You will discuss and negotiate with them. In Canada, we have multinational enterprises which are being nationalized. If we treat these firms like everyone else, it is o.k. The developing countries in this process may realize they are making themselves poorer as a result of this, but this is their decision. People are frequently prepared to pay something in terms of a lower standard of living to be more independent.

Secretary Simon: Chancellor Schmidt earlier discussed the need for worldwide investment. There is enormous competition and a need to strengthen the policies of investment. There will be \$4-1/2 trillion over the last 10 years. We have regulations in the U.S. to protect our national security. We will review impediments to borrowing and to allowing foreign investments to come in. Every country will require large amounts of capital to attain goals. And international business will make 51-49 type deals. I will suggest there will not be many countries threatening to expropriate, because capital will flow where opportunities are greatest. This is our number one challenge.

Prime Minister Miki: Earlier I said 60% of world GNP was represented in the seven countries assembled here, and 50% of world trade. There is some small bit of conjecture with respect to the Soviet Union, but that figure is factored in so that we have 60% of total world GNP. Thus, our countries have a vital role in world affairs.

Prime Minister Trudeau discussed restrictions on multinational corporations, but it is more important and broader than this one issue, since the free economic system is being challenged. We believe that the multinationals should operate based on a code of ethics and that they should respect the legal systems of the hosts. Admittedly, there is a divergence in legal systems; but the rule is never to interfere with or impinge upon the legal operations of a host. No country regards bribery as a standard conduct of ethics.

President Ford: If no one has additional remarks on this issue, I suggest we turn to the item of East-West relations. Jim, you are icebreaker on this subject.



Prime Minister Callaghan. Thank you Mr. President. Mr. President, Helmut began an interesting discussion of this issue yesterday. My observations are based on a number of his comments. Since we met at Rambouillet we have had the 25th Congress of the CPSU. As this demonstrated, we are not alone in our troubles. They have deep concerns with their economic problems. Indeed, it is clear from the specifics given there that many of their targets were not met. They have had, for instance, two disastrous harvests. And, I expect they are bound to have continuing food shortages as long as their agricultural system continues to be organized as it is. Brezhnev also indicated that consumers interests were clearly relegated to second place. He also stressed the difficulties of increasing costs of raw material extraction as well as the high cost of infrastructure and the slow rate of growth in the Soviet labor force. The conclusion one must draw is that growth in the Soviet Union will slow down in the next few years. It is, therefore, clear that they have troubles too.

With respect to debt, we expect that their debt will be roughly \$40 billion at the end of 1976. Our experts, however, would put the figure a little lower. But whatever the figure, we can see clearly the enormous increase -- from \$2.5 billion in 1973 to either \$30 or \$40 billion by the end of 1976. This is an increase of a significant order of magnitude. We believe that it is caused in part by the impact of the recession of the exports of Eastern Europe, the large scale capital goods imports by the Soviets and Eastern Europe and by attractive credit terms in the West. This has led German, U.S., French, and U.K. banks to be heavily involved in extending credits to the East. For German banks this has in part been political, as one dimension of Ostpolitik. For other country banks such as in the U.S. and U.K. it is primarily a commercial consideration.

We need a fresh resolve to make a success of the gentlemen's agreement. As things stand now the Soviet Union can play us one against the other in order to bargain us down on credit terms. We have been tempted and fallen. They chisel 1/8 of a point here and there. All of us have said yes at one time. Now all of us have the opportunity to come into line with one another. We do no good at all by competing with one another in the way we have been doing.

Many Western banks think the terms we extend to the Soviet Union are unrealistically low. Some banks, which are traditional leaders, are just about at their prudent limits. And with the IMF gold sales lowering the gold price the Soviet Union must increase demand for credit. In our view, while the debt of East European countries requires careful watching there appears to be no severe problem with Soviet credit. For the Eastern



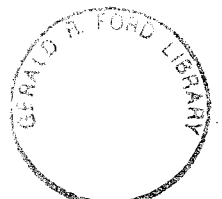
Europeans we may need to have some limits on credit. But the record of these countries is second to none. There may need to be some roll-over by some banks, but I do not think there will be defaults.

But as Helmut points out, we must emphasize the need to keep this debt situation under review because it is an increase of an extraordinary nature. The problem does have a bearing on our interest in stability. When Eastern political leaders meet they will look at their budgets. If they cannot borrow, they cannot meet some of their needs or purchase equipment and technology. The question which is raised is should we try to get some political advantage in this area; is there an opportunity to influence Soviet economic policy?

I am not optimistic that we can succeed in this. I think that any attempt to curtail economic relations would simply arouse Soviet hostility and force them to withdraw without bringing them to a more constructive frame of mind. The Soviet leadership cannot be pressed because to do so would drive them to a more inward looking position. But economic relations can involve the Soviet Union in a more stable and mutually beneficial relationship with the West. It can lead to a consolidation of detente in the interests of the West and in the interest of the Soviet Union. Growing involvement means that they cannot cause damage to the West without causing more damage to themselves. They damage themselves more if they pull back.

Strangely, I do not think the Soviets see or admit any contradiction between their detente policy in Europe and their support for revolutionary movements as such places as Angola. Most of the time the Soviet policy is pragmatic in such respects. But we should not allow the Soviets to practice detente selectively. They should not be able to pursue detente only in Western Europe but not for the rest of the world. To get the Soviets to behave with restraint we need political and security measures. I do not believe we could use economic weapons to insure the proper global balances. We must do so by maintaining a proper military force.

I think the policy with the Soviet Union needs careful and continuing scrutiny. We have been competing on credits, but now we need more coordination. However, because we cannot influence the Soviets to a great degree with economic policy, we need to use the proper political and military balance to influence them.



President Ford. We have done studies which indicate that the Soviet Union has increased its investment in its military, but achieved no greater military capability as a result. This is due to the inefficiency of their military operation. In the U.S., people have raised political questions about this large scale Soviet military investment. It was for this reason that we produced this analysis of what investment did to maintain Soviet military capability. In fact, we found that it did very little.

Chancellor Schmidt. Jim, in response to your points, I did not mean to imply that we should curtail credits to the Soviets. I merely wanted to draw attention to two facts. It is not a matter of a debt of \$30 - \$40 billion, as you pointed out. You were right in saying that so far these countries have been reliable debtors. But countries like Romania and Poland are now in serious trouble. They need additional agricultural imports from the West. For instance, Poland agreed to allow out of the country another 130,000 people of German origin in order to get an additional \$1 billion from the Federal Republic, one-half of which was credits. They will need additional help in meeting capital needs. You have seen in recent days economic and political problems in Poland. Others are also in desperate situations. In the long run it is possible they will have to ask for renegotiation of their debts -- they may have no choice.

We must ask ourselves whether this will mean that they will have to draw back into a closer relationship with the USSR. I wanted to draw attention to this possible development -- not draw conclusions from it as yet. One might think of harmonizing our priorities and policies on official credits to these countries, or harmonizing conditions. These credits are a net outflow of real resources from West to East, which we provide these countries. They in turn are able to spend a large percentage of their GNP for arms. The Soviets, for instance, spend 11-12% of their GNP for arms and they would not be able to set this aside if they had to finance investment in other sectors by themselves.

I am not proposing a squeeze. We must determine how far we go in giving real resources to both the Soviets and the East. We will talk about North-South issues later on; but all of our discussions in that area relate to a transfer of real resources. I believe we are compelled to bring about a transfer of real resources to the developing countries. For moral and political reasons we have decided to give assistance to the developing countries. We are doing our share. But how much burden can we put on the shoulders of our consumers or taxpayers to help out the peoples of the developing countries and the East.



The Soviets make cynical remarks about our Western investment policy toward them, indicating that we are competing among ourselves. We should consider ways of curtailing competition among us. If we have extended credit of such a large increase in the last five years, what about the next five? How much do we want our citizens to work to help the consumers of Leningrad?

We will want to step up our exports to the Soviet Union because this helps our labor force and exports. But what do we do over the long run? What happens if there is competition between developing countries and Eastern Europeans for resources from the West? What are the strategic implications of this? I am under the impression that although our employment goals and detente made us engage in broad efforts to sell our goods to the East, it has not paid up too well for us in some respects.

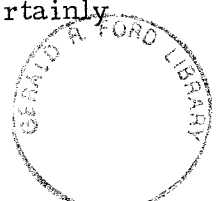
I am not making a proposal here, but let's think about it.

President Giscard. Trade between West and the East has increased from \$15 billion in 1960 to \$52 billion in 1975. Also the nature of the trade has changed. Germany is the largest trader with Eastern Europe, then Japan, France, Britain, and Italy. The U.S. places a lower priority in this area, and food accounts for a large part of it.

Western trade with the Soviets and the East is now structurally a deficit for the Eastern countries. We recently met with the Soviet leaders on these subjects. Kosyglan as early as 1963 said that the Soviet Union would not accept a trade deficit. Now the Soviet deficit has increased from 1.7 billion in 1969 to 6.5 billion in 1973, 7.3 billion in 1974 and still larger in 1975.

Large deficits are not much of a problem for the Soviet Union but are more of a problem for Eastern Europe. The Soviets have a \$40 billion debt to pay and they are able to pay it through gold exports and other things. But for Eastern Europe the problem is really serious. The Romanians are covering up the situation. Poland is desperately looking for financing these things and this has economic and political significance; we must consider what attitude to take.

The question is important for all of us. In my view, the growth in trade to the USSR is to the West's advantage. It has created a kind of semi-dependence on our technology by the Soviet Union. For Eastern Europe, however, the problem is more complex. It could lead to a crisis or bankruptcy in Poland, for instance. To have excessive debt and a crisis situation involves certain dangers. Coordination among us is certainly necessary.



We will try to restructure our balance of trade with Eastern Europe. We should be chary in relation to their commercial position. We should decide whether we want to stay in the situation in which we give capital to the socialist countries, and in which we give to the developing countries but the socialist countries do not. We put up with this, but I do not know why. Eastern countries should contribute to international economic development.

Obviously we need coordination in areas of credit. The gap is not so big. Psychologically and technically credit competition is really artificial. We would be ready to work on some coordination.

Secretary Kissinger. There are two aspects to the issues of East-West trade: (1) economic, or commercial, cooperation; and (2) political cooperation.

There are a number of economic considerations which must be made in dealing with East-West issues which Helmut alluded to earlier. For instance, to what degree do we tax our populations to make life easier in Eastern Europe; what priority do we attach to East-West versus North-South issues; can we recognize the futility of competition among ourselves in extending credits to the East.

On the political side, our Administration has fought in the Congress for greater latitude on East-West trade. It has been prevented from having sufficient latitude by Congressional amendments. The problem was that Congress tried to influence domestic policy through the use of trade. But we must draw a clear distinction between attempting to influence domestic policies and attempting to influence foreign policies. No country will allow another to dictate domestic policies. But we cannot apply the same principle to foreign policy. Foreign policy decisions always involve external pressures. All decisions are based on taking account of the consequences of these actions with respect to others.

Several years ago this Administration developed the concept of linkage -- to keep economic advances toward the East in step with foreign policy considerations. We did it in ways which were not necessarily linked to specific action -- nothing like holding out a certain credit in return for a specific action -- but in such things as the speed of processing credit applications and the ease of negotiations. In other words, our credit availability was related to the forthcomingness of Soviet foreign policy. There was no open-ended credit, and credit was tied to specific projects. In this way we could have some influence on the shape of Soviet decisions and could monitor performance.



We are convinced that the Jackson Amendment deprived us of this sort of leverage. For instance, when the Soviet Union had to decide on what to do in Angola in 1975, they might have made a different decision if there had been some incentive, or some potential economic cost, in intervening. As it was, they risked little because their foreign policy conduct was no longer linked to certain economic benefits. I cannot prove this, but I believe it is true.

We should try to persuade the Soviets that the economic climate is not unaffected by their foreign policy conduct, and get this through to them. We should get them to understand that there is a relationship between detente and economic issues -- or shall I say, "peace through strength" and economic issues. I am not suggesting anything so crude as cutting off credit to achieve a specific objective. If they know what we want, we can relate the economic atmosphere to the political atmosphere.

For instance, Helmut pointed out we have to make decisions on priorities between North and South, and East and West. How we put these priorities can be structured in such a way that it is related to Soviet performance but is not seen as blackmail in the Soviet Union.

During the time that we practiced linkage, the Soviets complained about it but played the game very well. They understood what was expected of them. We should discuss how to relate the economic climate to the political climate. There should be no free ride in the economic field, and we should not finance irresponsible Soviet political activities. It is these things that we need to discuss further and in greater detail.

Prime Minister Moro: With respect to debt of Eastern Europe, it is growing very quickly vis-a-vis the West. Italy has provided \$4.7 billion. We must establish a priority for our objectives given the relative shortage of currency available to Eastern Europe to finance their development. We ought to examine how to reconcile our objective of growth in trade with growth in indebtedness of Eastern Europe. There is also the problem of multilateral financial instruments, i. e., the mobilizing of accumulated credits. We should also take notice of the recent achievements with respect to export credits. This is a positive achievement among our economies. We should also attempt to avoid actions which could lead to an imbalance in East-West trade.

Prime Minister Miki: I have listened with great interest to the discussion on East-West trade. East-West cooperation is required for a more stable



world economy and political system. Japan does not have serious debt problems with Eastern Europe. It has \$7.6 billion worth of credit outstanding to Eastern Europe and China, which represents 7.7% of trade. The Soviet debt is only \$1.2 billion this year. However, the Soviet Union has a large surplus in bilateral trade with Japan. Since these imports serve as collateral, we are not too worried about the Soviet debt to Japan. It is not of urgent proportions. But as Prime Minister Callaghan said, we in the West should refrain from engaging in a credit scramble to provide credits to the East. We in the West should exchange information more closely and intensively amongst ourselves. We should recognize the need for a close exchange of information. We presently lack this in relation to Eastern countries. This would reduce the friction among ourselves.

Chancellor Schmidt: I would like to respond to President Giscard. You are correct, Valerie, when you said that my country in its exports to the Soviet Union and its credit relationships has the political relationship playing a predominant role. This started because of the vulnerability of Berlin and our desire for detente. That is our desire to insure that the Soviets pursue a policy of detente. I am aware of the strategic problems to the world as a whole. I would be interested to make the Soviet Union understand that we are aware of the strategic relationship in this area.

For this reason, I would like to add in the communique two sentences which would express that the Soviet Union and COMECON countries in the last five years have risen to an important role in taking credit and buying investment goods, technology, and foods. And that we recognize that to the extent to which they have to their advantage participated in the world economic system we expect them to contribute to the burdens of the system with regard to aid to the developing countries.

It is time that Eastern Europe and the Soviet Union got this message in public. This would also be helpful to Poland and Romania, etc.

Prime Minister Callaghan: At present relations with the East are most fragile and we should do nothing to worsen relations with them. We might be jumping a bit fast if we published Helmut's two sentences. I am not sure that it is a good thing for the Soviets to operate in the developing countries. Now the Soviet's standing is very low in the LDCs. If we introduce this idea, there could be room for a great deal of mischief. I feel we need more work before we express this idea publicly.



I do agree with Helmut, however, that we should call attention to the attitude of the Soviet Union and its trading partners on technology, food, and credits, and the proper conclusions ought to be drawn from this.

In addition to exploring Helmut's question, we should examine the consequences of trade and indebtedness of Eastern Europe and the Soviet Union. We have agreed that in the end the Soviet Union will bail out Eastern Europe or impose discipline.

President Ford: I subscribe to the concepts of Chancellor Schmidt. We need certain sentences in that part of the communique. Let us see if we can structure the communique in this regard.

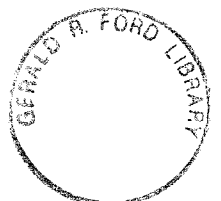
Chancellor Schmidt: After hearing Jim Callaghan, I withdraw the second sentence as long as we retain the first.

Secretary Kissinger: We could call attention to the list of issues raised by the Chancellor and ask for a joint examination at another meeting of representatives of these countries.

Chancellor Schmidt: I agree with Henry's idea of an examination of these issues at the OECD. His speech was a kind of balance sheet which was not overly tough on the political side. That will be a proper ground on which to base a discussion of this issue.

President Trudeau: Chancellor Schmidt's strategy is a very basic one. Frankly, Jim Callaghan is right, we should not move too far. At UNCTAD, the LDCs raised the issue of Soviet assistance themselves. It is better that this point come from them rather than from us. Thus, there should be nothing in the communique on this area.

If we have to make a choice on the allocation of resources, we should help the LDCs rather than the Soviet Union. With respect to Secretary Kissinger's OECD statement, which is one worth keeping in mind, we must recognize that the Eastern bloc has other forms of resources which can help us meet our needs. Western Europe for instance is getting Soviet goods. Interdependence is a positive thing. It is a more positive than negative thing. If Prime Minister Callaghan is right, the Soviet Union is having trouble financing its military budgets. President Ford also spoke of this. If this is true, we should in reality be making more progress in SALT and MBFR. Anything we could do in containing their military would be good for our countries, because this too involves a high demand for capital. If there were less capital spent on military, it could be used for other productive things.





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President Giscard: With respect to the communique, we should not include too many multifarious conclusions. Our main focus is on progress in the world economy. If we put a lively political direction in the communique, it will distract us from this objective. We should not make these East-West issues explicit in the communique as Chancellor Schmidt suggests. We should talk about these issues but not put them in the communique.

President Ford: Everyone is in agreement. Now I think we should turn to the issue of North-South relations. Chancellor Schmidt will be the icebreaker on this issue.

Chancellor Schmidt: Thank you, Mr. President. It seems to me that the key to meaningful development of the world economic order is in the hands of the West, of the developed countries. And whatever solution we come up with must be practicable and feasible. Industrialized countries will have to approach these issues jointly. So far we have had a procedural consensus, but not a consensus of substance. I doubt if we have analyzed the problem in depth. If we did so, there would probably be less conflict than there has been, at least in my impression, so far. Up to now we have argued from points of interest which were not all the result of deep enough analysis. I will ask questions this morning and not try to give answers.

There are a number of ways in which disagreement among us can be overcome. I would, therefore like to see emphasis on overcoming the dangers to the world economy through long-term cooperation, minimizing distortions of the market, insuring the adaptability and flexibility of the world economy, and having the developed countries, when possible, work out common approaches to the developing countries.

The specific problems involved here are the transfer of resources, debt, and commodities policy. With respect to resource transfer, I would like to increase the transfer of resources, and I am also willing to devote greater attention to debt. The number of our decisions point the way for further work, especially in the developing countries. With respect to commodities, these were given substance in the Nairobi declaration and can be followed up in the CIEC.

We ought to focus on the program of the group of 1977, particularly the large number of commodity agreements they have proposed and their Common Fund. My Government has already made an examination of commodities with respect to their suitability for commodity agreements. We have concluded that commodity agreements would produce losers as well as winners -- it is not certain that LDCs would always be winners.

For instance, with respect to copper, the winners would be the U.S. and the Soviet Union, and the losers would be the non-copper producing LDCs and the importers of processed products. With respect to rubber, only Sri Lanka exports over 5% of its total exports in rubber. It would benefit, but a commodity agreement in natural rubber would speed up the shift to synthetic rubber. In general, on commodities, India, Sri Lanka, and Bangladesh would be on the side of the losers and not the winners. Moreover, there would be a high windfall profit for a few industrialized countries. Many developing countries would be on the loser's side, as they were as a result of the OPEC price increase.

We could, of course, have commodity agreements to stabilize some elements of the world economy, but the results could be more imbalance. It would hurt the developing countries and thus make it hard to settle the problem. For instance, so far we have found no way to cope with the oil windfall profits. If other windfall profits occur, they will also be hard to deal with.

In my view, the various conceptual paths put forth can be combined. We support the U.S. desire to provide credit through the IRB. This could be combined with a facility to reduce mono-structures in LDC exports, countries which export only one major product. It could also include the stabilization of LDC export earnings. I consider this the best way to stabilize the earnings of LDC commodity exporters. We must make a distinction between commodity agreements which stabilize prices and earnings stabilization programs to stabilize export earnings. In the latter, the interplay of price and supply is unaffected.

With respect to commodity agreements, with buffer stocks, some buffer stock funds could be linked in clearing arrangements. This would be like the U.S. proposal. In my view, we should approach this issue positively and set up a special task force to establish our proposals. This could be done in the shadow of the CIEC in Paris. We could invite other developed countries, especially others in the European Community.

Again on the issue of commodity agreements and buffer stocks, in the near future I am not afraid of an increase in the price of other commodities as was done in the case of oil. But we should make efforts to avoid disruptions. If commodity prices go up, it will raise questions for governments. How will commodity prices affect governments? And we must look to the financing of commodity agreements, since they will impose burdens on government budgets or the buyers of commodities.





We have done some analysis using 1972 figures -- pre-oil price figures. France, for instance, imported \$2 billion worth of products from the Nairobi list of the Group of 77. If we assume that to stabilize prices the costs would be 10% of the import cost, it would be \$200 million which would have to be financed by the buyer, not only by the federal budget. Thus, there is an additional burden on the consumer, since he bears the additional burden of the price increase.

I stress what I said at the beginning. I am only raising questions, not giving answers. For instance, look at Page 2 of this paper. (German official distributes paper.) If we consider commodity agreements on all 17 commodities, Angola would be benefitted as much as India, with a population of 600 million people. And Brazil would be benefitted by commodity agreements, with its 100 million people, as much as Malaysia with 11 million people. High on the list of beneficiaries would be Cuba and the Philippines. The poorest countries are not at all high on the list.

Also a number of developed countries benefit including Australia, South Africa, Canada and New Zealand, while a number are losers such as Belgium, Luxembourg, France, Italy, Germany, the U.S. and Japan. I do not have any figures for the Communist countries, but as a whole they would have been net losers in 1972; this is not true of the Soviet Union, but the other Communist countries.

This is only a small abstract of the detailed analysis we have done in Bonn. We have examined and analyzed the 17 commodities, one by one, and their impact on 140 countries in the world. My proposal is that we do such studies in common between us. We will see if our interests are homogeneous or not. This will help us, with a common point of view.

Secretary Kissinger: If you do this individually you could help those countries you want to benefit the most. In other words, you could forecast the effect on a case-by-case basis and respond on a selective basis.

Chancellor Schmidt: I agree. But even if we are successful in stabilizing prices that does not mean we will meet the demands of the developing countries. We worked very hard on the details on this. We call it the "Gymnich Encyclical." It is an enormous document. It took three days of Cabinet meetings to go over.

President Giscard: Is the conclusion of this study that with respect to organization of the market the objective ought to be price stabilization? In my view prices should be stabilized at neither the highest nor the lowest levels but at an intermediate level which is consistent with production costs. The goal of organizing commodity markets is to reduce fluctuations.

I do not think these figures are negative answers to the proposals we have been making.

Chancellor Schmidt: I agree, but the figures show that even if we are successful in stabilizing prices that does not mean much to the developing countries.

President Ford: But we can help certain countries on a commodity by commodity basis if we wanted.

Chancellor Schmidt: We could do that in some cases.

Foreign Minister Rumor: Following up UNCTAD and other similar meetings at Ministerial level, we did not hear any programs which would reduce the gap between developed and developing countries. In fact, there has been an increase in the gap and a process of deterioration in backwards societies. The developing countries are convinced that on the basis of a rational view of the distribution of world resources they can diversify their economies to increase industrialization. Western aid should aim at making such diversification easier. We need guidelines, such as those in Nairobi, which go in the direction of the NIEO.

Relations with the Third World ought to represent an interplay with the broad and diversified interests between the First and Third World. This must be based on the objective of increased interdependence between the First and the Third World.

Our goals should be to avoid sharp oscillation in the price of raw materials and problems of general interests, to help to ease the pain of economic crisis, to ease production of raw materials which require increases in production and to insure technology transfer not only for the benefit of backwards societies, but for the world economy as a whole. UNCTAD, on commodities, spoke of a Common Fund for encouraging investment and diversification in the developing countries. The problem of a Common Fund requires a lot of thinking and consultation.

Also we must examine very carefully the guidelines involving technical transfers to the Third World and therefore related directly to the responses for development and economic and political stability. It is essential to the well-being of all nations to take care to see that relations with the Third World are not based on policies which could lead to conflict.



President Ford: Our posture with respect to internationally traded commodities will continue to be a key issue in our relations with the developing world. The United States' policy objectives in this area are to reduce excessive price fluctuations, improve market access for processed products of developing nations, ensure security of supply for consumers, and increase investment for resource development.

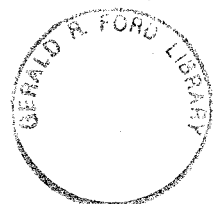
Our differences with developing countries are in how the above objectives should be reached. It is neither our policy nor our intention to supplant market mechanisms or enter into price-fixing or production-limiting commodity agreements. Although we agreed at Nairobi to engage in a program of consultations on individual commodities, we are not committed to any particular outcome of these consultations. While we agreed to discuss the concept of a common fund for buffer stock financing in an exploratory meeting, early next year, we have made no commitment to participate in eventual negotiation of such a fund. We continue to believe the need for a common fund has not been demonstrated. Specifically we continue to object to the Common Fund for buffer stocks as proposed by the Group of 77.

The resolution on commodities adopted at UNCTAD by consensus failed to address the need to increase private investment for resource production. It is to meet this need that we put forward our proposal for an International Resources Bank. The Bank would not be a direct lender but instead would reduce the non-commercial, or political, risks of foreign investment in developing nations. In this way, it enables them to diversify and expand their export base. We regret that a resolution to study our proposal was not adopted at the Nairobi UNCTAD meeting, although we appreciate the support by OECD and other nations. We propose to advance the idea in other appropriate international forums including the CIEC. We will cooperate closely with the major industrialized nations in this regard.

Prime Minister Callaghan: Helmut's figures are graphic, but isn't it misleading to select only one year, for example one year Zambia could benefit because copper is high, in another year copper prices drop.

Chancellor Schmidt: Yes, but these were done assuming a stabilization period of five years, not one.

Prime Minister Callaghan: We must go back to first principals and not forget where we started from with respect to the developing countries. The problem is, as we said two years ago, a certain number of developing countries have mono-industries, that is they are heavily dependent on only



one export crop -- copper or sisal, etc. Problems in exporting this one crop can lead to political instability. What we intended to do was to examine the economic position of countries with one industry and help them avoid swings from good to bad years. This must be an overriding world objective. We should not lose sight of the limited objectives which we can really achieve. Our objectives should not be to break up the Group of 77. We should examine commodities on a case-by-case basis and link them to countries which are effected. And let us do this on an earnings stabilization basis which enables us to get back to first principals. I do not think there is any difference between us on this. As for techniques, I believe we can find ways of financing this without endangering our position.

President Ford: (to Prime Minister Callaghan). Thank you Jim. I think this morning's discussion was very useful. We will now adjourn for a brief lunch and return here at 1:30 for our final session, which will finish up with relations between developed and developing nations and then turn briefly to energy, after that we can discuss the communique.

THIRD SESSION: 1:30 p.m.

Foreign Minister MacEachon: One of our problems is, in reading the Manila Declaration, that the developed countries do not really have enough new or creative ideas, or concrete proposals for meeting the needs of the developing countries. There are some exceptions, some notable exceptions, for instance Henry's proposals in the U.N. and UNCTAD, including an International Resources Bank, and Minister Forcade's ideas on a common fund. We ought to try to identify at an early stage some areas for early progress at the year's end. We will need to do this in the fall because there is going to be a Ministerial meeting in December; this will be a high profile political meeting with the Ministers of the 27 CIEC member countries present. We should prepare early for this highly visible political event, which will be an important step in the ongoing dialogue. We should project this Summit as high level consultations at which we were concerned as to how to work together to insure success in this dialogue.

Prime Minister Miki: At Rambouillet we agreed on North-South cooperation. Since then we have had the beginning of the dialogue and UNCTAD.



It is time we came up with ways to make the North-South dialogue a success. Our discussion so far has been focused on analysis, but the dialogue takes on new difficulties as it approaches an action oriented stage. The North-South dialogue remains the greatest challenge for all of our countries. There is a divergence of views and directions, but success is vital to peace and prosperity in the world. The United States has made excellent concrete proposals, especially Secretary Kissinger's IRB. We in Japan support these excellent proposals. But some have failed to achieve the full understanding of many other countries. I therefore suggest that when we prepare to put forward new ideas we put our heads together in order to have a full exchange of views.

Our objective now should be to take account of the views of the developing countries to the greatest possible extent. The developing countries want the maximum stabilization of exports. The question is whether these arrangements will function well or will excessively distort the market. We in Japan advocate proposals which can provide benefits to growers of primary products. On a commodity by commodity basis we believe we can find techniques for dealing with individual commodities.

The efforts of the developing countries themselves are important but not sufficient. We should step up aid, but we need to give aid to the non-oil exporting developing countries, and to provide assistance to help developing countries overcome their food problems. We in Japan emphasize the production of food stuffs and agriculture in general. We in Japan will also pay more attention to the Asian nations needing external help. For instance, we need further help from our colleagues here in supporting the Asian Developing Bank. We have strong desires to play a constructive role in this area.

Finally, let me add another point. We have now been to two summit meetings -- one held at Rambouillet, in France, and now this meeting in San Juan in the Western Hemisphere. We think this is an important idea and enables us to work closely with our European and North American colleagues. If there is a consensus that another meeting be held we would like to hold the third conference in Japan -- in Asia. We are not asking for a consensus on this here, but only that you keep our strong desire in mind.

President Ford: Thank you Mr. Prime Minister. We will do that. We have still some time to discuss energy. Prime Minister Trudeau will "break the ice."



Prime Minister Trudeau: In a symbolic way, your use of the words "break the ice" leads me to remark that a large part of our populations will soon have to "break ice" if we cannot find answers to our energy problems in a reasonably short period of time. In a few words, the crisis of 1973 showed us how vulnerable we were to certain forms of economic pressures on the supply and resource side. But significantly, despite the five fold increase in the price of oil, which did significantly add to inflation, the dire predictions of doom did not fulfill themselves. Our economies, and our democratic market system, has proved to be resilient.

In addition, we have discovered that OPEC itself is also vulnerable. It is not able to put its earnings to good use without the developed countries. And it has learned that there are limits to its interests in imposing its will on us, since the recession also hurt it. The whole world is now wiser since we have all recognized the meaning of interdependence. In fact, there was no price increase at the OPEC meeting in Bali, and after the very significant increase of 1973 and early 1974 there has been no real increase in the oil price, with a nominal increase of only about 20%. In fact OPEC has realized the limits to the degree to which it can push up the price in its own self interest. We all recognize of course that if there is renewed conflict in the Middle East we could still be targets of various forms of boycott by Middle East nations. This underscores the need for peace in the Middle East.

There is also a greater realization that we have to make greater efforts to achieve self reliance in the energy field. Self reliance is better than, and distinguished from, self sufficiency or interdependence. It says that we should mainly rely on ourselves but not exclusively. In reducing dependence we should look to other sources of energy, like coal. I therefore support the U.S. proposed efforts in the IEA to help us in dealing with complex elements of the new energy technology.

In the area of conservation, I believe our governments are ahead of our electorates. I do not have a good knowledge of other countries, but in the U.S. and Canada, in spite of increased prices on oil and gas, our experience is that people buy as many big cars as before, which brings home recognition of the problem that we are apparently not getting through to our people. This Conference can help our people to understand the need for conservation.





A second point is that there are some dangers in nuclear energy. But we believe nuclear is important. If we did not have nuclear facilities to bridge the gap through to new technology in the future there would be a danger that OPEC's control would be greater. If we did not have nuclear, there would be nothing between the short and medium term alternatives when supply of oil were cut off. It is useful for us to understand the dangers of nuclear power and to deal with them in four areas: nuclear war, proliferation, accidental mishandling and terrorism.

In all these areas of the energy problem we can only move as far as we can get our populations to move with us. It is necessary to inform our citizens in order to create the views and beliefs and behavior which we believe to be right.

Prime Minister Miki: Mr. President, to us in Japan the problem of energy is urgent. We depend heavily on the international oil market since we have none domestically. In the past dependence on OPEC countries has been 3.1 million barrels per day, now it is 2.7 million barrels per day. Nonetheless, the economic recession which has decreased consumption is now over, and there will now be an increase in oil consumption. As a result demand will reach 1973 levels in 1977. Thus, we are concerned about the Middle East, which is still unstable. We are also concerned about the problem of oil supply and price, and an increase in the price cannot, of course, be ruled out. We therefore look to the oil situation with caution and care. We should continue dealing with the oil producing countries which will enable us to have checks on their ability to increase prices. We need a dialogue, and we cannot have confrontation.

We also strive toward cooperation with the developed countries within the IEA. We need greater efforts so that our cooperation will increase by leaps and bounds. Particularly, we need further cooperation on research and development. We need to fulfill the R and D potential of industrialized countries which is very great. Some steps have been made, but it is important to improve R and D in this area.

Prime Minister Moro: There have been encouraging signs since Rambouillet in the energy area, especially with respect to the OPEC price decision. The important thing is to persuade OPEC that price increases also hurt them.

Prime Minister Callaghan: I think we can all agree that we are better off to have faced the oil crisis now, but we still have a long way to go with dealing with this problem. We must look to newer fuels as well as relying on those we have in present. With respect to U.K., our oil development is precisely on target. Production will be 20 million tons from the North Sea in 1976. By 1980 we will have self-sufficiency. At

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that point there will be no demands on anybody since this will be very helpful in supporting our balance of payments.

President Ford: President Ford discussed details of the U.S. energy policy, explaining what progress the U.S. had made.

There ensued a discussion of the final declaration.

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