

# CONFIDENTIAL

NOTE OF THE SECOND SESSION OF THE CONFERENCE OF HEADS OF GOVERNMENT OF FRANCE, GERMANY, ITALY, JAPAN, THE UNITED KINGDOM AND THE UNITED STATES AT THE CHATEAU DE RAMBOUILLET ON SUNDAY, 16 NOVEMBER 1975 AT 11.00 A.M.

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## PRESENT

### France

President Giscard d'Estaing  
M. Jean Sauvagnargues  
- Minister of Foreign Affairs  
M. Jean-Pierre Fourcade  
- Minister of Economy and Finance

### Germany

Herr Helmut Schmidt - Federal German Chancellor  
Herr Hans-Dietrich Genscher  
- Federal Foreign Minister and Vice Chancellor  
Dr. Hans Apel - Federal Minister of Finance

### Italy

On Aldo Moro - Prime Minister  
On Mariano Rumor - Foreign Minister  
On Emilio Colombo - Minister of the Treasury

### Japan

Mr. Takeo Miki - Prime Minister  
Mr. Kiichi Miyazawa - Foreign Minister  
Mr. Masayoshi Ohira - Minister for Finance

### United Kingdom

The Rt. Hon. Harold Wilson,  
O.B.E., M.P.  
The Rt. Hon. James Callaghan, MP,  
- Secretary of State for Foreign and Commonwealth Affairs  
The Rt. Hon. Denis Healey, M.P.,  
- Chancellor of the Exchequer

### United States of America

President Ford  
Dr. Henry Kissinger - Secretary of State  
Mr. William Simon - Secretary of the Treasury

## INTERNATIONAL ECONOMIC PROBLEMS: TRADE

Mr. Miki began by endorsing the general statement on economic problems which Chancellor Schmidt had made yesterday. He then went on to offer some personal observations on the present position:

(a) Two years ago the Ministerial Conference on GATT had taken place in Tokyo, and his government's view had been that the recommendations of that conference should have been generally adopted because they believed that they would have been effective. But in fact that conference took place only one month before the oil crisis broke and it failed to deal with what proved to be the current crucial issues relating to imports and exports. It was essential therefore that they must be dealt with in the next conference.

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(b) The expansion of free trade led directly to the growth of human wellbeing and to that end it was desirable that the next round of trade negotiations in Tokyo should be completed quickly, by 1977; he hoped that this meeting would recommend accordingly.

(c) The issue of restrictions on imports was common to all. In the case of Japan imported textiles had made deep inroads into the Japanese home market. As a responsible leader however, and despite the difficulties, he and his government had been adamant in their stand against import restrictions to protect the home market. They did so because they recognised that if one country imposed import restrictions it would set up a general reaction.

(d) By next spring the world economy should be better, and the Heads of Government should make clear that they would not resort in the meantime to import restrictions. Their meeting should specifically record agreement not to make such restrictions.

(e) Developing countries were best helped by an expansion of trade, which in turn helped the exports of developed countries. The ratio of trade as between LDCs and developed countries had changed significantly since the oil crisis, with LDCs now running a deficit of \$30 to \$50 billion this year. It must be an objective to increase their purchasing power; if their difficulties were overcome this would in turn help the exports of developing countries.

He concluded by saying that he had given only a brief view of the problem but it had enabled him to restate the basic principles which the Heads of Government should endorse.

The Prime Minister said that all Heads of Government should agree that it was vital that we had a sustained improvement in international trade. Given the depth of the recession - the most formidable challenge since 1947 - such an improvement was the only escape route from the grave problems of unemployment. The onus for action fell primarily on strong and expanding economies, especially those with a favourable balance of payments. A major new initiative was called for, as imaginative as the Marshall Plan, especially focused on problems of the Third World. This major problem could only be dealt with at international level and only concerted action would be effective. It had to be accepted, however, that each country would have particular problems relating to individual industries which were at risk, although they were viable in normal times.

As a general rule, protective measures simply shifted the problem elsewhere and he would oppose therefore any general controls on imports. The United Kingdom Government's position was, however, that it retained its international rights under GATT rules (he reminded the meeting that he had led the United Kingdom delegation in the GATT negotiations in 1947). He also



recognised that the United States Government had problems in respect of their new Trade Act, although he was alarmed at the number of applications that had been made for protection under that Act; consequently he welcomed the United States Government's attitude which had led e.g. to its decision on the issue of remission of VAT on EEC imports to the United States. So far as the United Kingdom was concerned he noted that some of the provisions of GATT had not had to be strictly applied in the 28 years since they were agreed upon and he cited in particular the anti-dumping provisions ; but they remained available.

He recognised that there could be no quick results in improvements in international trade - these would be the consequences mainly of internal measures of expansion - but he agreed with Mr. Miki that it was essential to make progress quickly in the GATT multi-lateral trade negotiations.

President Ford began by saying that the United States Government was very firmly committed to the goal of an open world economy, being convinced that this was in the best interests of all. He reaffirmed his Government's willingness to work towards this goal by setting out six proposals for consideration:

- (a) There should be a substantial round of tariff cuts, no less ambitious than the Kennedy round;
- (b) They should introduce a range of non-tariff measures through negotiations for the agreed purpose of stimulating trade;
- (c) They should work towards the elimination of tariff and non-tariff barriers to trade;
- (d) The goal should be to eliminate barriers, through the multilateral trade negotiations by 1976;
- (e) Arrangements should be made for meaningful, special and preferential treatment for LDCs;
- (f) There should be an improvement in the trade régime on agriculture leading to a mutually acceptable basis for regulating trade in agricultural products.

The United States Government had been working on these problems and was ready to enter into serious multilateral negotiations in order to complete the Tokyo round in 1977, and he urged that a positive beginning should be made when officials met on 19 December. Agriculture presented special problems however, and a separate and special effort should be made to limit distortions to trade in agricultural products.

On trade generally, he noted that international trade had increased over the last twenty years from \$50 billion to \$800 billion per annum, to the great benefit of all peoples in terms of jobs and of standards of living. But this achievement would not be preserved if efforts were not made to maintain sound principles. In particular they must resolve the issue of domestic pressure for protection, by a multilateral negotiation, so as to limit emergency



measures and confine their use to existing international agreements. It was also necessary to conclude a Gentleman's Agreement on Export Credit and to renew the OECD pledge against trade restrictions. They must all reject measures for internal protection which resulted in a beggar-my-neighbour policy. The United States Government pledged itself to deal with the difficulties on a commonsense basis and in such a way as to avoid a situation in which Governments backed down from the Tokyo agreement of 1973.

Signor Moro said that a realistic approach on international trade could only be ensured by a liberalisation of trade, embracing the reduction of tariff barriers concurrently with measures for the protection of workers and the safeguarding of reserves. The present situation was without precedent; the recession had started with the LDCs and had since extended to all countries. It was tempting to look for restrictive measures but it was necessary to bear in mind the consequences of restrictions. Some of these consequences had already occurred. Recession could, however, be combatted and this was the alternative to import restrictions which harmed all countries. The behaviour of the industrial states was very important because their recovery could now be foreseen and their strength would be vital for other countries. He proposed therefore that:

- (a) Heads of Government must renew the trade pledge in 1976;
- (b) They must stimulate a general agreement on credit for exports - progress on this matter to date was not satisfactory;
- (c) In the short term development aid should be based on the principles of co-operation; this was limited at the moment, and denied the necessary stimulus to the Tokyo round of the Geneva negotiations;
- (d) In particular he proposed that there should be a liberalisation of trade in agricultural products, coupled with the concept of fairness in trade in industrial products. He thought it should be possible to get agreement on this approach.

President Giscard said that his views were similar to those of the previous speakers. Freedom in trade was closely related to the danger of recession: purely protective measures taken at such a time would have disastrous effects. In his view they must commit themselves to keep trade open notwithstanding the risks to economies and political commitments which this entailed.

The Tokyo negotiations of 1973 had taken place in a different context, when the US and EEC were in surplus and there was a strong US economy expected to continue expanding at least for another two years. It was important that the 1977 Tokyo conference should be a success and they should pursue the necessary goals with a firm resolve. They should not reopen the checks and balances of Tokyo 1973, although they could express support (as Mr. Wilson had done) for GATT under which countries did have powers to influence their own economies.



On protectionism, he said that this had already developed, and he noted the United States legislation, in particular Section 301 of the Trade Act, although fortunately the United States Government had been liberal in its application. Nevertheless, reports of impending actions under the Trade Act were unsettling; at present a quarter of French exports to the United States were covered by projected legal proceedings. Although many of these might fail, they did unsettle international trade and produce pressure for protection at home. He thought that some domestic measures of protection would need to be taken e.g., in respect of textiles and shoes. He noted that Australia, New Zealand, Finland, Portugal, Israel, Greece, South Africa and even Sweden had all adopted protective measures. It was not conceivable that the developed West economies should remain open markets while the others were closed; but the aim should be to keep ours open, while opposing closures elsewhere.

President Giscard said that in his view they should solemnly renew the OECD pledge by declaring that when it expired it would be renewed, and they should also indicate their resolve to carry through to a successful conclusion the multilateral trade negotiations in Tokyo.

Chancellor Schmidt said that it looked as if Heads of Government were in agreement, but the tone of their determination as expressed at the meeting had differed. In his view it was essential that the Heads of Government showed the maximum degree of determination; he noted that though the United States and French Government statements were broadly in agreement, there were in the United States trade unions, and in the EEC, strong trends towards protectionism. Therefore the six Heads of Government should declare as follows:

- (a) Because of their deep-rooted liberalism, they would specifically pledge themselves to give up any form of protectionism which would reduce market opportunities by imposing restrictions;
- (b) They would renew the OECD pledge;
- (c) They would pledge themselves to step up GATT negotiations;
- (d) It would be a good sign if during the conference the issue of credit for exports could be settled. A sensible approach would be for Finance Ministers to deal with this, especially in order to get common agreement between the United States and France.

The Heads of Government should also express on Monday, in their Declaration, their conclusion that the present world recession was not a favourable occasion in which to work out a new international economic order as called for in United Nations documents. Instead they should aim to improve the structure of existing economic relationships. They could say that:

/(i) It was



- (i) It was fundamental to increase developing countries' share of world trade;
- (ii) It was therefore essential to promote transfers of technology and generalised tariffs, in order to encourage liberal trade in the commodities of developing countries.

There was an underlying danger of agricultural protectionism in the United States and in the EEC which could lead to undesirable results. It should be recognised that agriculture was difficult, and they should be prepared to discuss how to deal with it concurrently with their discussions on industrial matters. He did not think it was necessary to settle this problem this weekend, nor should they refer to the problem in public, but it was very important because it endangered the probability of a liberal approach to trade if the restrictionism in the agricultural sector hampered or undermined an otherwise liberal approach.

Mr. Miki said that he thought there was a consensus of view among Heads of Government, and it was to be hoped that, as such, it would be publicised.

The Prime Minister commented, on the OECD pledge against restrictive measures, that this has been reaffirmed in May of this year and he did not see that the Heads of Government had anything to add to that reaffirmation. The two qualifications that had been made in respect of the OECD pledge in May were first that finance to cover deficits must be available, and secondly that the stronger economies must expand to lead the way to improvement in international trade. He thought these two qualifications still applied.

While the United Kingdom might wish, as he had said earlier, to exercise its international rights under GATT, e.g. against dumping, they would do so with care and moderation. We had made it clear many times that we did not believe that a generalised system of import controls on behalf of our balance of payments or indeed of any other aspect of our economy was right for Britain. He had said this many times in Parliament and abroad. It would have a serious effect on our exports - a quarter of our production was for export. He strongly agreed therefore with two propositions which had been put forward: first, by Mr. Miki, that priority must be given to the multi-lateral trade negotiations in Tokyo, and secondly, by President Ford, in his proposal for a new round of tariff reductions. The British Government had repeatedly emphasised its determination to continue to do its best to sustain world trade. But we had also made clear, and he had done so himself in Parliament earlier this month, that the British Government - no more than any other Government - would not rule out protective measures for particular industries suffering from or threatened with serious injury as a result of increased imports. He was not talking here about industries which were non-viable (lame ducks). We were concerned with the industries where, as President Ford had said, particularly acute and unusual circumstances were working against them. We had seen some signs of this in the United Kingdom in the concerted attacks on sectors of British industry, e.g. from Eastern Europe and Taiwan. The Government would have to safeguard industries that would be viable and essential when the world recovery came.



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Referring to what President Ford had said, the Prime Minister said he wanted to give full support for the President's proposal for a "mutually acceptable basis for regulating trade in agricultural products". We agreed with him about the urgency of this proposal.

Chancellor Schmidt said that he had noted the Prime Minister's statement that protection would be legitimate if it were for security of viable industries and not lame ducks. He questioned what viable meant and cited the German textile industry as an example. He had close ties with the German textile unions and would not therefore want his following remarks to be made public, but he had no doubt that given the numbers of foreign countries engaged in textile production, and their workers' relatively low wages, the European textile industries would have to vanish; for he saw no way of warding this off, except by erecting a kind of zoological garden for them. This was regrettable since there had been heavy capital investment in the textile industry. In Germany such investment was as high per capita for textiles as it was for steel. He saw only one part of the European textile industry surviving, namely the French and Italian fashion industry. This raised the question of what was viable? He had no doubt that over a period of ten to fifteen years some of these industries were not viable, but they had to recognise that it was wrong to speed up their decline in a recession. He wondered what other viable industries the British Prime Minister had it in mind to protect - motor cars? The German car market was full of French, Italian and Japanese products and he accepted that this was all right if they were better and/or cheaper. But even so he expected that with modernisation, better design, better products, greater economy, etc., the German car industry would survive in a restructured way, whereas textiles probably would not.

The Prime Minister said that he agreed with Chancellor Schmidt in distinguishing the short from the long-term. His own knowledge of textiles convinced him first that some element of a British textile industry could survive (e.g. in cotton wear and in fashion) while the rest ranked differently over a long period. But there was a fundamental difference between allowing a run-down on the one hand and on the other leaving the industry open to measures which speeded up its decline in a period of recession. He was in no doubt that some attacks were concerted, even if the evidence was hard to come across. Some of the worst abuses derived from Eastern European countries.

He too thought that the British car industry would survive, but with restructuring, and he cited the measures which the Government had taken, in full accordance with their international obligations, in the restructuring of British Leyland. He thought that textiles would be viable on a small scale and they were currently placed in areas which were already scheduled for regional help with alternative employment, although it was not possible to give this help effectively now. He was nevertheless clearly thinking in terms of assisting firms which would be viable when the recovery began.

/President Giscard

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President Giscard said that the Heads of Government meeting appeared to have concluded that on trade:

- (a) they wished to avoid the extension of restrictive practices; and
- (b) they wished to accelerate the multilateral trade negotiations in Tokyo.

It was, however, necessary to avoid a Helsinki situation. If the situation worsened, were the Heads of Government resolved to provide further restrictions on trade? What was important was not what they said on this but what they did. Mr. Wilson's statement was very important in this context, because it had been generally believed that the United Kingdom was about to impose general import controls. The Prime Minister's statement was valuable because it excluded action contrary to OECD and was expressed in terms of individual cases dealt with as such. His own position was midway between that of Chancellor Schmidt and the Prime Minister on this matter. He thought that textiles would survive as an EEC and developed economy industry through forms of specialisation, e.g. United States production of household linens and fashion production elsewhere. But some threatened industries would go under. For example, he noted that France had no indigenous photography or radio industry, but production of television cameras was still successful, although it was the only survival from the photography industry which had declined over a period of fifteen years. Governments must accept market pressures and the evolution which they brought, but at the same time they needed to mitigate what was already a gigantic problem of unemployment and he therefore accepted the kind of sectoral protective action which Mr. Wilson had indicated as desirable. He thought this was particularly appropriate in respect of imports from e.g. Eastern Europe where there was no price competition as such and it became impossible in consequence to assess whether the product being imported was priced on a realistic basis of cost. They must all think much more about this kind of situation.

President Ford said that he was in no doubt that the United States automobile industry would survive; the United States Government's current analysis had shown not only that it had a basis for survival but that it was vital to the economy. He had no doubt that it would respond to market pressure for development and improvement. Mr. Miki said that Japan had the same problem of competition from imports produced by a workforce with very low wages. But in his Government's view, developed countries must use GATT and OECD to prevent the violation of particular trade agreements and Heads of Government should therefore take a clear stand on the unviability of restrictive measures.

At about 12.15 p.m. President Giscard, bringing the discussion on this item to a close, said that Finance Ministers should consider the views expressed for the purpose of embodying them in a suitable form in the official declaration.

/International



INTERNATIONAL ECONOMIC PROBLEMS: MONETARY

President Giscard said that there had been very broad fluctuations in exchange rates in recent months which had not reflected changes in true relative values. They had been purely monetary and technical. But in his opinion these fluctuations had played a substantial part in de-stabilising the Western economies, where sectors had been influenced by them, to the point where an industry might be made uncompetitive simply because of such changes. This made it futile to discuss things like removing tariffs, because reductions could be offset by currency fluctuations. He concluded that a more stable monetary system was required. There were alternative approaches. A completely new system would be difficult to achieve, and there were many who thought that conditions were not ripe. But he wanted to ask - particularly the Americans - whether it was right to make this the excuse for inaction. He believed it would be better for the Western democracies to move towards a greater degree of order in the monetary system. Unless they did so, the rest of the world would interpret continuing instability as a sign of decadence.

President Giscard recognised that there was no meeting of minds so far, but although he did not wish to go into the details of a new system he proposed that alternative approaches should be considered. First, it might be possible to consider how in the future a more stable system might operate. Secondly, it should be possible to build on the work that had been started at the IMF annual meeting in Nairobi in 1973. He believed Governments should aim to bring that work to a conclusion at the forthcoming meeting of the Interim Committee in Jamaica. It should be possible for the present meeting to prepare the ground for this. Looking at the countries represented round the table, Japan had achieved monetary stability in relation to the American dollar. In the UK and Italy, the internal economic situation required exchange rate flexibility in the management of their external affairs. The countries of the Snake had managed to stabilise exchange rate fluctuations between their own currencies, but there were strong fluctuations between the Snake and the United States dollar. Giscard believed that the key to the problem lay here. If it could be solved, the United Kingdom and Italy - particularly the latter - might find it possible to move nearer to the Snake. He therefore proposed that the sort of central bank action which had created stability within the Snake should be developed to secure a greater stability with the US dollar. This would require co-ordination between central banks, and action by them. He proposed that the present meeting should assert its intention to secure a greater degree of stability in the system, through the action of the central banks, and should offer the prospect of the move forward at the Jamaica meeting, based on an easing of the problems at present separating France and the USA.

Chancellor Schmidt said that he thought these proposals were useful, and hoped that they might be reflected in the communiqué to be issued at the end of the present meeting. He believed that the fluctuations in exchange rates over the past 2½ years, and the sequence of meetings on monetary problems, had made a major contribution to the uncertainty which plagued the Western economies. This was especially true for smaller countries and businesses, who were less able than their larger counterparts to cope with the problems created by exchange rate fluctuations. He therefore agreed that the Heads of Government should state plainly their intention to strive for greater continuity and predictability in the monetary system.

/Commenting



Commenting on President Giscard's points, Herr Schmidt agreed that the fluctuations between the Snake and the dollar were the key problem. He pointed out that most of the countries in the Snake did about 50 per cent of their foreign trade with other partners in it, and he believed that this explained why this trade had declined less than international trade generally. He believed that the more the determination of Governments to dampen the exchange rate fluctuations, the more rapid the recovery of the Western economies.

As to the approach, he did not believe it would be right to fix rates. He agreed that successful intervention by central banks was promising, particularly if the United States made it clear that its own central bank would be interested in reducing fluctuations. Even if this were not of immediate practical importance, it would create the right impression.

Turning to the Jamaica meeting of the Interim Committee, Herr Schmidt welcomed the fact that President Giscard had not insisted on a return to fixed parities as soon as possible. He hoped that this forthcoming attitude would be reflected by others. Finance Ministers might be asked to seek a solution based on the compromise achieved at the 1975 Paris meeting of the Interim Committee, which had rightly given a high priority to stability but had seen fixed parities only as an ultimate goal. The aim in Jamaica should be to set aside the more far-reaching changes, and to go for a modus vivendi which would mark an end to the struggle over theology and to the series of fruitless meetings. He recognised that the United States Administration would face opposition in the Senate, but he regarded ratification as less important than an end to the discussions.

President Ford observed that Finance Ministers had negotiated intensively on monetary reform and had made substantial, if not complete, progress. He believed there was general agreement on the need for more stability, but not on the proposition that the world should now return to fixed parities. He would be well content to see something in the communiqué to the effect that France and the USA had resolved their differences over exchange rate problems, so that final agreement could be reached in Jamaica. He hoped it might be possible for Finance Ministers to carry this forward during the course of the day. He believed that the solution would have to permit a choice of exchange rate regime suitable to the particular situation of individual countries, thus making it possible for them to avoid beggar-my-neighbour policies. There were a number of possibilities in this area, but no regime which failed to take account of market realities could persist.

The Prime Minister said that he agreed with Chancellor Schmidt in welcoming the initiative taken by President Giscard, and he also welcomed President Ford's response. He believed that the most important point was that dogma should not be allowed to stand in the way of recovery. He entirely agreed that the problem of instability was particularly serious for smaller countries and businesses, and it was important that they should be given more certainty and thus more confidence. He also believed that it was important to separate the long and the short-term when considering exchange rates. It was possible to aim for stability in the longer term, but it would not be easy to achieve. Meanwhile, we were in a period of adjustment, and there would have to be adequate provision for adjustment in exchange rates. He agreed that it was important that Heads of

/Government



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Government should tell their Finance Ministers to achieve an early solution to this problem, settling the substance before the meeting in Jamaica, possibly at the Group of Ten Meeting in December.

Mr. Miki said that before coming to the Conference he had feared that the differences between France and the USA on exchange rates would breed confusion. He therefore welcomed the conciliatory positions which they had adopted. He did not himself see anything illogical or wrong in floating, but he realised the need for a change in the existing monetary system given the present instability in the Western economies. He did not believe that the time was right for a move to fixed rates. He therefore agreed that the experts should distinguish between the short and the long-term problem, with the aim of reaching an agreement in Jamaica.

Signor Moro said that there was much in President Giscard's analysis with which he could agree. He believed it important to aim at a more stable system for both economic and political reasons, and all would have to contribute to a new discipline. But for the present, his own country, like the United Kingdom, needed flexibility. Nevertheless, Italy remained keen to re-enter the Snake. He hoped that it would be possible to conclude an agreement in Jamaica which would deal with more Snake exchange rates in a way which would take account of both the French and the American views.

President Ford spoke again, saying that he had been impressed by Chancellor Schmidt's comments. He was interested in the proposal that the communiqué should mention that central banks would intervene to encourage stability, and he hoped that Finance Ministers would be able to work on this for the communiqué.

Concluding the discussion, President Giscard suggested that the public presentation should emphasise the fact that the meeting had got down to tackling problems while setting aside theological differences. He welcomed President Ford's response to his proposal about central banks. It might be possible for the communiqué to reflect the intention of the six countries to take a common position at the Jamaica meeting. Since the difficult issues were mainly those between France and the USA, their Finance Ministers might first discuss them and then agree their conclusions with their other four colleagues.

The meeting adjourned for lunch at about 1.15 p.m.

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