

THE ECONOMIC SUMMIT MEETING IN TOKYO, 28/29 JUNE 1979

Delegations

Canada

The Rt. Hon. Joe Clark, P.C., M.P.,
Prime Minister.

The Hon. Flora MacDonald, P.C., M.P.,
Secretary of State for External Affairs.

The Hon. John Crosbie, P.C., M.P.,
Minister of Finance.

France

H.E. Mr. Valéry Giscard d'Estaing,
President of the French Republic.

H.E. Mr. Jean François-Poncet,
Minister of Foreign Affairs.

H.E. Mr. René Monory,
Minister of Economy.

H.E. Mr. André Giraud,
Minister of Industry.

Germany

H.E. Herr Helmut Schmidt,
Federal Chancellor.

H.E. Herr Hans-Dietrich Genscher,
Federal Minister for Foreign Affairs.

H.E. Herr Hans Matthöfer,
Federal Minister of Finance.

H.E. Dr. Otto Graf Lambsdorff,
Federal Minister of Economics.

Italy

H.E. Hon. Giulio Andreotti,
President of the Council of Ministers.

H.E. Hon. Arnaldo Forlani,
Minister of Foreign Affairs.

H.E. Hon. Filippo Maria Pandolfi,
Minister of the Treasury.

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Japan

H.E. Mr. Masayoshi Ohira,
Prime Minister.

H.E. Mr. Sunao Sonoda,
Minister for Foreign Affairs.

H.E. Mr. Ippei Kaneko,
Minister of Finance.

H.E. Mr. Masumi Esaki,
Minister of International Trade and Industry.

United Kingdom

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister.

The Rt. Hon. The Lord Carrington, P.C., K.C.M.G., M.C.,
Secretary of State for Foreign and Commonwealth Affairs.

The Rt. Hon. Sir Geoffrey Howe, Q.C., M.P.,
Chancellor of the Exchequer.

United States

H.E. Mr. Jimmy Carter,
President.

The Honourable Cyrus Vance,
Secretary of State.

The Honourable W. Michael Blumenthal,
Secretary of the Treasury.

The Honourable James R. Schlesinger,
Secretary of Energy.

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Mr. Roy Jenkins,
President.

(Note: In Delegations comprising more than three Ministers,
two members of the Delegation alternated according to
the subject under discussion.)

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RECORD OF THE ECONOMIC SUMMIT MEETING HELD IN TOKYO ON
28/29 JUNE 1979 IN THE AKASAKA PALACE

FIRST SESSION : 0930-1230

Opening Statements

Mr. Ohira welcomed the Heads of State and Government to the Economic Summit and said that he was particularly happy to see Mrs. Thatcher and Mr. Clark who, like himself, were attending their first Summit meeting. He hoped that the discussions would be characterised by an open and frank approach. At the last Summit meeting in Bonn Chancellor Schmidt had described those taking part as mountaineers. Since that occasion the countries represented by those taking part had got out of difficult economic troughs and had crossed broken terrain. They had just caught sight of the peak when they had encountered the landslide of another oil crisis. Today's circumstances were, if anything, even more serious than those which had prevailed when President Giscard had acted as host at the first Economic Summit meeting. But today we had the wisdom which derived from experience, and we should use that wisdom in order to co-operate with each other to work our way out of the present predicament. Our attitude must be firm and positive and we should be resolute in deciding our long-term policy and in then carrying it out.

Against that background he suggested that the meeting should discuss, in order, the macro-economic situation; energy (on which the personal representatives of the Heads of State and Government were already meeting to prepare a passage for the communique); the position of the developing nations; the world trade position; the monetary situation; and, finally, the adoption of the communique. But before beginning on this agenda he invited each Head of State or Government to make a short opening statement which would serve to provide the overall guidelines for their discussion.

President Carter said that the eyes of the world were focussed on the Summit meeting. There were many matters to be

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discussed, and the foremost of these was energy. He hoped that the meeting would be bold, specific and united in what it said in its communique about energy. For the short-term, he would prefer to see countries adopt individual targets based on specific figures and commit themselves firmly to meeting those targets. He also believed that there should be an undertaking to achieve targets in the longer-term, though he accepted that the more distant future was more uncertain. Any plan to reduce the consumption and import of oil should be equitable and should take account of the internal problems of individual countries. The meeting should also address such problems as the operation of the spot market, the stockpiling of oil at a time of tight supply, and the development of alternative sources of energy such as coal, tar sands and shale, and solar energy. It would be important that immediate reductions in oil imports should be followed up with strict conservation measures, which should, in turn, be supplemented subsequently by the introduction of alternative sources of energy. He also hoped that the meeting would agree upon the means of consultation with members of OPEC. The present lack of consultation had had grievous consequences for the countries represented at the meeting.

He believed that the IMF should retain its basic purpose and he hoped that the monetary system could be stabilised. The developing countries should be encouraged, through the World Bank and other means, to do more to meet their own needs for raw materials, including oil, and other supplies. He welcomed the satisfactory conclusion of the MTNs and he hoped that the necessary approval would be obtained from Congress in August. He proposed that the problem of South East Asian refugees should first be considered by Foreign Ministers and that, in the light of their advice, the Heads of State and Government should then decide what should be said on this issue in the communique. It would be a mistake if the Summit Meeting did not issue a statement on the refugee problem, just as it would be unfortunate if they did not make plain their support for the developing countries.

Signor Andreotti said that although their meeting was dealing primarily with energy, it was important that the public image which

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they presented was that of a meeting of a political, and not technical, character. They should confirm what had been decided at Bonn but should also bring out clearly the changed circumstances between now and then. Their discussion should not be internal to the seven countries represented at the meeting, but they should rather assume a general guiding role and stress the inter-dependence of all countries in facing today's problems. At the same time it was important to bear in mind the deep differences between the situations of individual countries: Canada, for example, was self-sufficient in energy, while Italy and Japan were very heavily dependent on external sources of fuel. In their approach to OPEC the seven would be all the stronger if they took account not only of their own requirements but also those of the developing countries, whose prospects were harmed most by constantly rising oil prices.

All countries were hampered in the search for alternative sources of energy and especially the development of nuclear power by serious obstacles of a psychological character which were being exploited by a demagogic opposition. It would help Governments to carry forward their national nuclear power programmes if the meeting issued an agreed statement advocating the greater use of nuclear energy. It might be particularly appropriate if word were to come from Japan on the need for the peaceful use of nuclear energy.

Mr. Ohira said that he believed that nuclear energy was the most reliable alternative to oil. Japan was now pursuing a policy of developing nuclear power and was engaged in arrangements for technical co-operation with the United States, Canada, France and other countries. Ensuring safety was of cardinal importance in the use of nuclear energy, and his Government intended to be absolutely thorough about this. The Japanese nuclear power programme was not as far advanced as he would wish, and they were trying to catch up.

President Giscard said that the Summit meeting should bear in mind its economic purpose. They were meeting because they had a

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role in the solution of the world's economic and monetary problems. The press had speculated about the value of such meetings and there had been occasional criticism of them. The Bonn Summit had, in his view, been useful, and the developments that had flowed from it demonstrated its positive nature. He hoped that this Summit would be equally valuable.

The main economic problem facing the meeting was the energy crisis and in particular the problem of oil supplies. This was an issue which affected the short, medium and long terms, and the meeting had to be able to show that they had proposals which were relevant to all the timescales. The European Economic Community had prepared for the Summit meeting at the meeting of the European Council the previous week. But the decisions which had been taken then would only make sense and have an impact on the problem if they went hand in hand with similar decisions by the Community's partners represented at Tokyo. They would be successful in tackling the problem of oil demand and supplies only if they could agree upon quantified targets for oil imports which were as specific as possible. In this way they would show their determination to make a lasting reduction in their imports from OPEC countries. If, on the other hand, there were no targets, the meeting would be seen as vague and disappointing. The meeting should also agree on concrete action on prices and in particular on the excessive prices on the spot market.

In the short term the only alternative sources of energy were coal and nuclear power, and on these the meeting should express its determination to increase production. Everybody was concerned about the safety of nuclear power, but this should not be an absolute pre-condition of nuclear development, for otherwise there would be long delays in making greater use of nuclear power.

The meeting's statement on the developing countries should be as factual and credible as possible. The energy problem bore very hard on the non-oil producing developing countries, but the seven were not responsible for the increases in oil prices:

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indeed, because of them, it was more difficult for the Seven to step up their aid programmes. They should not make statements suggesting that the effects of increases in oil prices on the economies of developing countries could be offset. While we should do what we could to help the poorer nations, there was no way in which we could solve this problem entirely.

It was important for the stability of the financial markets that the meeting arrived at solutions to the energy problem. Each country would need to defend its national interests, but it was important to take an overall view of the problem if the worst effects of the oil crisis on national economies were to be avoided. France would play a full part in this process.

Chancellor Schmidt said that he believed that the sequence of Economic Summits had had a benevolent influence on the development of the world's economic structure and processes. The meetings had not accomplished great reforms and improvements but had helped to avoid major catastrophes which otherwise might have happened. They had prevented lapses into the beggar my neighbour policies of the 1930s. It was not necessary for each Summit to produce great new schemes every year, and the meetings should avoid the temptations of adopting misguided policies in response to external pressures, including those exerted by national Parliaments.

At the Bonn Summit Germany had been asked to promote quicker growth by deficit spending, and his Government had taken the necessary measures within 8 weeks of the Summit meeting. As a result he expected the German economy to grow by about 4% during 1979. This meant, however, that the money supply had increased, and public borrowing in the Federal Republic was now 3.7% of GNP, a higher level than that for the United States and France. Another inevitable consequence of the implementation of the undertakings which Germany had entered into at the Bonn Summit was that price increases in 1979 were higher than those for 1978, and the repercussions of this would be seen in the next wage round in Germany. Problems had also arisen in the capital and credit markets: interest rates had gone up by 12½% in the last 12 months, and though he hoped that this rise had now stopped, he could not be certain that it had.

He urged the meeting not to enter into undertakings on energy which could not be fulfilled. If the meeting indulged in gimmicks, these would soon be demolished by public opinion or by the OPEC leaders. On the other hand, Germany would be ready to co-operate in the implementation of realistic decisions. He thought it likely that the OPEC meeting had been adjourned the previous day because they wanted to see whether the Seven were serious in their determination to tackle the energy crisis or whether they could do no more than produce new rhetoric. It was also clear that OPEC were finding it more difficult to agree amongst themselves: some of their members understood the effects on the world economy and in particular on the developing countries of further explosions in oil prices and they wanted to be moderate. On the other hand, those who wanted quicker price increases were not acting entirely out of selfishness, for they were right in their view that only such increases would make the industrialised nations conserve oil. He was confident that all those attending the Summit meeting would agree on the need to reduce the aggregate demand for oil imports both by conservation and the substitution of alternative fuels. The Federal Republic had allowed the price mechanism to work to a large extent, with the result that during the period 1973-78 Germany had imported less oil than in the years before 1973 despite the growth of her economy. In 1979, however, oil imports had been a little higher than those for 1973. His Government's expenditure on incentives to conserve oil was running at a high level, and the use of coal, which was difficult and expensive to mine in Germany, was very heavily subsidised. A good indication of the success of the measures which his country had taken was that only 9% of Germany's electricity production was now based on oil.

There was, however, considerable opposition to the policy of switching from oil to other fuels. The environmentalists sought to prevent the greater use of coal, and they were also fighting, with the help of some court decisions, his Government's plans to increase the production of nuclear energy. He hoped that the meeting's communique would carry a clear message advocating greater use of both coal and nuclear power, for this would help his and other Governments in their efforts in this field. If the industrialised

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nations were seen to be taking credible measures to reduce oil demand not only in the immediate future but also in the medium and long terms, this would strengthen the hand of the OPEC moderates. Even so, he had no doubt that for the rest of the century oil prices would have to go up at regular intervals. Governments would have to spend far more than hitherto on pure and applied research on alternative energy sources so that by the turn of the century we were using not only nuclear energy but solar energy and, possibly, geothermal energy. He personally foresaw that in the early part of the next century there would be pressure not to use hydro-carbons any more because of the dangers of over-heating the outer atmosphere.

When the meeting turned to energy, he hoped that although it was to be expected that the Heads of State and Government would express their national interests in clear terms, their approach would not be a nationalistic one. It was important to avoid verbal compromises and the pursuit of national interests hidden behind fine words. Otherwise, the meeting would be pointing the world towards deeper monetary instability than before, higher levels of unemployment and a greater lack of food and other basic necessities in the developing countries than they had experienced hitherto.

The Prime Minister said that the prospects for the world economy and the energy problem were inter-related and that one could not be discussed without considering the other. We were now only half way through 1979 but we had already seen prospects for the world economy deteriorate month by month. We had started the year with a good chance of a better balance of growth between the major countries and a less exaggerated balance of payments surpluses and deficits. The currency situation was also more stable, but because of what had happened on oil the prospects in all these areas were now much worse: this was especially true as regards inflation.

This was the second time in five years that we had been made to realise how vulnerable the world was to developments on oil. This was a problem that was not going to go away, and it had to be tackled in relation to both the short and medium terms. The economic growth which we had formerly taken for granted was now a fragile thing.

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We had to revise all our previous ideas about growth. It was bad for the industrialised nations but worse for the developing countries. They would suffer through increased oil prices, reduced world economic activity and because the developed nations would be less able to help them. All this meant more instability in the world, both economic and political. This was the background against which the Summit meeting was taking place. The world was looking to the meeting for guidance and leadership. She believed that the countries of the free world had the resilience to surmount these difficulties, but we should recognise that the room for manoeuvre in economic policy had been reduced. We should not, however, help either ourselves or other countries unless we were realistic about what could and could not be done. If the meeting failed to face facts or took refuge in pious platitudes, the world would say that the Summit had failed and the position would be worse than before the meeting. This was a heavy responsibility.

The need for realism and candour was nowhere greater than in the field of energy. Not only was there a severe immediate problem, but we had to face a long haul too. Our efforts to reduce oil demand had to be sustained year after year. The supply of nuclear energy took a long time to develop, and large-scale supplies of energy from other sources such as the sun and tides could not be expected before the end of the century. So both short term and long term measures were needed. It was essential that we let the price mechanism work in full, for this was the most telling way of reducing demand. But there were also other steps that should be taken: we must reduce consumption in the public sector and improve tax incentives for conservation measures such as improved insulation. We should also reduce oil demand by switching to other sources of energy. 70 per cent of Great Britain's electricity was produced from coal and only 15 per cent from oil. In the longer term we must make much more use of nuclear energy.

The meeting should also be realistic about how to tackle inflation. The lesson of the years since 1974 was that we should not seek to accommodate the inflation produced by oil price increases by deficit financing and printing money but we should instead fight it. We should make it plain that this course meant a loss of

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real income that was unavoidable in the short term. But this did not mean giving up all hope of growth in the future. It was true that the prospects for growth had been damaged by oil price increases. But we should look elsewhere - for example, to greater efficiency in industry, agriculture and commerce and to improvements in their ability to adapt to change - for prospects of renewed growth. If we adopted this kind of realistic approach to the fight against oil price inflation and its consequences we would be better able to inspire confidence that our policies were on the right lines.

If we were to achieve a balance of supply and demand in oil, we must reach some understanding with the oil producing countries. We had to show OPEC that if prices went up too quickly, the repercussions would be very serious for the Western nations and for the world economy as a whole.

The Prime Minister said that perhaps these precepts applied more to the United Kingdom than to some other countries. We were a major energy producer but we saw our interests as closely identified with those of consumer countries. We were therefore making determined efforts to save energy. Moreover, we had a particular problem in the need to rebuild the strength of our industries and to make them competitive. What she had said about fighting inflation and adapting to change applied even more strongly to the United Kingdom than to some other countries.

The purpose of the Summit meeting was to give a lead. To do that we must adopt a realistic approach on energy and the world economy and we should not cloak our meaning with soft phrases. If our approach to these problems was clear and realistic, this would inspire much greater confidence throughout the world.

Mr. Roy Jenkins said that a fair amount of progress had been made since the Bonn Summit. The MTNs had been brought to a successful conclusion in April, though it remained crucial that there should now be full implementation of them. The agreement on growth which had been reached at Bonn had been very largely fulfilled. While we should not exaggerate what had happened in the monetary field,

we had seen the American stabilisation measures and the putting into position of the European Monetary System. It was perhaps in the field of North/South relations that there had been least progress, but even here negotiations on the renewal of the Lomé Convention had just been concluded. But all these modest achievements were overshadowed by what had happened in the energy field. This was the problem which dominated the Summit. There was nothing which could prevent substantial economic damage being suffered as a result of the events of the last six months. Inflation was bound to go up, and growth would be reduced. The balance of payments cost for the OECD countries as a whole would be \$20 billion a year. The central question was how far we added self-inflicted and avoidable wounds to the inescapable injuries which resulted from the oil situation. The oil market would presumably balance itself in the next year or so. He agreed that oil prices would go up, but we must not encourage unnecessary price increases and we must do all we could to see that price rises were gradual and not sudden. If there was no voluntary agreement to restrain oil imports and no drive towards substitution, we should find that we were saving energy in the most expensive way - by recession. If that happened oil prices would stabilise at a very high level and would then remain there. This would be likely to produce a glut of oil, and it would then in turn become more difficult to bring home to people the need for conservation measures. In this way an even worse energy crisis than the present one would build up in the 1980s. This prospect made it necessary to agree upon measures to deal with the problem in both the short and longer terms.

Mr. Clark said that he agreed that the Summit's undertakings on energy must be seen to be serious ones and the meeting should restrict itself to adopting goals which were achievable. If they went for unattainable objectives, this would result in scepticism and failure. The effect of the Summit's conclusions on public opinion would be very important. An expression of serious concern about the energy situation would help Governments like his own who had to introduce unpopular conservation measures. Alternative sources of energy often raised environmental problems. There was, for example, evidence in

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/ of acidic rain resulting from the use of coal. It would be important for the Summit to take account in setting goals of the different circumstances of individual countries. There were major regional differences of wealth in Canada. Some areas, which were often those where there was abundant energy, were very wealthy, but there were also regions with little or no local energy sources which were much poorer. These internal differences meant that there were limits on the speed with which the price mechanism could be applied in full in Canada. The Canadian Government was actively developing an energy policy for the 1990s embracing substitution and conservation.

Mr. Ohira said that events had shown that the view taken of the Middle East situation at the Bonn Summit had been naive and that that meetings's approach to fundamental and long term measures to deal with the oil problem had not been adequate. We must now be firm in coping with future oil price increases and we must show that we were serious about long term conservation measures. Since the first oil crisis there had been some improvement in growth, some reduction in inflation in some countries and a better balance of payments surplus and deficits. But in other areas, particularly that of employment, serious problems remained so there was still substantial scope for improved economic performance. In Japan there was a considerable demand for an improvement in the quality of life, and his Government were trying to give rural communities urban amenities and at the same time to reduce the worst features of life in the cities. Japan was giving serious thought to the implications of the oil crisis for the coming winter as well as to the means of solving the longer term problems arising from the shortage of oil.

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Macro-Economic Situation

Prime Minister Ohira, resuming after the adjournment, recalled that Heads of Government had touched on the relationship of energy policy to macro-economic policies in the Opening Session. He invited further contributions on the world economic situation.

The Prime Minister suggested that Heads of Government should give more attention to the need to fight inflation. Even before the oil price increase the rate of inflation had been rising in many countries. The oil price increase had made the problem more urgent. People had come to expect living standards to rise, without differentiating between rising money incomes and increases in real purchasing power. Difficulties stemmed from the emphasis on Keynesian policies with their emphasis on deficit financing. Control of inflation required strict control of the money supply; but that was not enough. Inflation cheated elderly people out of the value of their savings. It represented a transfer of resources from the retired to the working population. Inflation could not be left unattended simply because the world had become so preoccupied with the problem of energy.

Mr. Ohira agreed with the Prime Minister on the importance of sustaining the attack on inflation. The countries represented at the Summit had to be concerned about the choice between inflation and growth. These were two sides of the same coin. He agreed that the problem of inflation was more acute than ever,

Chancellor Schmidt said he also concurred in the Prime Minister's point of view. He might use different words to express the same philosophy. He feared most the temptations to increase nominal incomes to compensate for higher oil prices. The last 5 years had shown the futility of this. For that reason he liked the sentence in the draft communique which dealt with real incomes (the first sentence under item 3). He wished strongly to underline the thought contained there.

President Giscard mounted a spirited defence of Lord Keynes, arguing that it was unjust to criticise prescriptions which related to the early 1930s to which Keynes had rightly addressed himself.

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If Keynes had been alive now he was sure he would have updated his prescriptions to meet contemporary problems. Picking up Chancellor Schmidt's remarks about the draft communique, he thought that paragraphs 3 and 5 could usefully be combined. He agreed on the need for all countries to adjust to the higher real price of oil. But that did not necessarily imply adopting deflationary policies. In France investment had not been a factor making for economic growth in the last 5 years. Growth had depended more on consumption and on overseas trade. He believed that wisely chosen investment could both be helpful in promoting growth and in conserving energy - in the terms of paragraph 5 of the draft communique. He had in mind measures to conserve energy and to develop new sources of power. He thought these could be beneficial to many countries. He was not satisfied that it was right simply to settle for running the world economy at a lower level simply because of the oil crisis. He felt that the communique should indicate that growth rates should not be tied to the rate of consumption of oil and oil products. That link needed to be broken. He agreed that growth needed to be fuelled by alternative sources of energy supply. In this way, sensible energy measures could reinforce commitments to domestic growth.

Signor Andreotti recalled that the two previous economic Summits had resulted in a message of hope and solidarity, because those countries best able to increase their economic growth had committed themselves to faster growth in order to help those less well placed. As a consequence the actions of others had helped Italy to maintain its growth target at around 4%. He feared that reactions to the twin problems of inflation and energy shortage would lead some countries to overreact in reducing growth more than was strictly necessary. If that happened, it would make it extremely difficult for countries like his own to maintain growth at an acceptable level. He did not wish to minimise the problem of inflation but agreed with President Giscard that the world should not just settle for deflation. The Summit leaders should aim at a coordinated policy to reduce unemployment and achieve their other joint objectives. Without inflating popular expectations they should aim again at a message of hope in the communique.

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Mr. Jenkins noted that the difficulty of the oil price increase lay in the fact that it produced two contradictory effects: a cost-pull effect on inflation together with a simultaneous deficiency in demand. In an ideal world Governments would be able to produce a demand compensation policy which could be progressively reduced as the higher purchasing power of the oil producing countries took up the slack. But this was extremely difficult in present conditions. He wondered, however, whether there might not be a case for developing separate price indices which would distinguish price increases associated with rising energy prices from the rest. This would enable Governments to emphasise the necessary consequences of energy shortages. Separate indices could also help in dealing with formalised systems of wage indexation.

President Carter reviewed the measures taken by the US Administration to respond to the energy shortage. Following the Bonn Summit, he had put in hand de-control of US domestic oil prices. Consequently over the next 18 months oil prices would rise faster in the United States than in the other Summit countries since they would reflect the results of de-control in addition to the OPEC price increases. He did not think US public opinion would accept separate price indices distinguishing energy price increases. But he was hoping to establish a contract with organised labour which would prevent energy price rises passing straight into US wage rates. Throughout his Presidency energy had been of first priority in his domestic programme. A great deal of progress had been made in the last 2½ years. Before 1973 each 1 per cent increase in GNP had been associated with a 1½ per cent increase in energy consumption. That link had effectively now been broken. Since 1973 the energy consumption factor had fallen to 0.37 per cent for each 1 per cent increase in GNP. Other supporting measures had been pursued, including progressive de-regulation (e.g. in aviation) and improved tax incentives for investment. President Carter also mentioned his continuing concern at the fall in the rate of productivity increase in the United States. In a mixture of policies he had tried to combine co-operation in the MTNs with reduced protection at home. He had persisted with this mix although it had not always been successful. President Carter also referred to the high level of R and D expenditure in the Federal Budget.

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The Administration was also encouraging similar expenditure by private industry. It was important to continue to encourage competition. But the central question for the international community was undoubtedly how to deal with the problem of energy. He feared that press reports of specific attitudes would reduce the flexibility of Heads of State and Government to respond to each other's problems in a way that would produce a constructive response. Above all, he hoped that they would concentrate on reaching agreement on positive commitments to specific measures to meet the energy problem. It was important that collectively they should try to support and approve the proposals of each other. Whatever else might appear in the communique could not substitute for constructive action of this kind. President Carter went on to say that the United States and Canada were less well placed than some other countries to reduce their demands on the world energy market. Partly this was because, for the last 15 years, domestic production had been falling because of reliance on older oil wells. Partly it was because, as an oil producer as well as an oil consumer, the United States had to balance the interests of different groups in adapting to a situation in which public opinion had got used to a cheap source of energy supply. Like the Canadian Prime Minister he had to have regard to the fact that important interests in his country were dependent on oil production and exports. He felt it was easier for those countries without a domestic source of supply. He was prepared to go a long way to accommodate his own policy to the needs of other countries, but if he was to carry US opinion with him he had to be assured that others would join in a common commitment to solve the energy problem. Above all, he did not wish to see the Summit fail. This would happen unless there was sufficient flexibility to accommodate divergent views.

Mr. Ohira then spoke for Japan. He agreed with others on the importance of energy to world economic development. There was anxiety about inflation, slow growth and higher unemployment. The problem was to know how best to tackle this anxiety. Many lessons had been learned. OECD had agreed upon differential demand management / policies.

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policies. The Japanese Government had contributed to this agreement. He recognised President Carter's need to cure United States inflation, but the problem of inflation was common to other countries as well. It was necessary for them all to minimise the effect of inflation in restraining economic growth. Japanese domestic demand had grown by 8 per cent during the 1978 fiscal year. But the current account surplus had been reduced from \$14 b. to \$12 b. Since March the current account had been running at a deficit of \$700 m. Japan now expected a very small current account surplus this year. Whilst therefore, they had not attained the target set at Bonn, progress had been made in reaching towards it. Wholesale prices had moved up sharply to an annualised level of 20 per cent in April and May, though retail prices had moved up less sharply. Inflation remained the central issue in domestic economic policy in Japan. It was important to improve the supply side of the economy. Japan was coming to the end of the period of post-war technological development. There was a need now to renew investment and to stimulate a programme of improved technology.

Before adjourning for lunch, there followed a brief discussion on contacts with the press/ⁱⁿ which Chancellor Schmidt suggested that Prime Minister Ohira alone should report on their proceedings to the press. This had proved a satisfactory arrangement when he himself had taken the Chair at the Bonn Summit. Mr. Clark seconded this approach and other Heads of Government agreed. The meeting adjourned for lunch at 1215.

28 June 1979

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