



cc Mr. Stave 2

CONFIDENTIAL

Ref. A07644

PRIME MINISTER

Mary Burt

Prime Minister

Jan 12/77 Ga.

Bonn Summit

I would like to stand back from the detailed briefing being prepared for the Bonn Summit and to offer you some more general thoughts about the prospects and our posture.

2. In real terms I think that at present the Summit is poised on a knife edge between success and failure, although no doubt a relatively good face can be put on whatever emerges.

3. The constituents for a success based to some extent on your own Five Point Plan are still there. The pluses are

- (1) There is increasing evidence of German willingness to act on growth provided Schmidt can justify this domestically in the context of action which others are taking. Indeed Dieter Hiss has just told me on the telephone that "Chancellor Schmidt is to a large degree ready to create better conditions for growth immediately after the Summit provided . . . . (he is satisfied with the rest of the package)". This is the first time I have heard the word "immediately" used on the German side.
- (2) The Community as a whole has a reasonable posture on growth post-Bremen.
- (3) Fukuda's statement yesterday indicates that the Japanese realise they must come up with something significant, designed in particular to reduce their surplus.
- (4) Carter must realise the importance to a successful Summit of a commitment to get United States domestic oil prices up to world levels.
- (5) Though there will no doubt still be a good deal of huffing and puffing the MTN discussions this week seem to be making some progress. This should reduce the risk of a major confrontation about trade at the Summit.

4. On the other hand:-

- (a) Carter's ability to deliver an energy commitment has been impaired by the Dole amendment: and this is the quid pro quo which Schmidt has said is essential for the Germans.





CONFIDENTIAL

(b) The package is relatively weak on currency stability in that the Americans are unlikely to volunteer any new action directly in support of the dollar which was our original objective. The Bonn Summit will not be the place to carry forward the European monetary ideas.

(c) The package is also thin at present on the developing countries. We can no doubt improve the language on things like e.g. the Common Fund, but the one significant possibility is a large real increase in Japanese aid.

5. What does this mean for us? I think there is an important distinction to be made between Bremen and Bonn. At Bremen we were bound to be in something of a defensive posture. The mood at Bonn ought to be quite different: and if the Summit is successful you can legitimately take some of the credit since your Five Point Plan charted the course. All this points to keeping the "Five Point" approach alive but placing increasing emphasis on the growth aspect. Action by Germany and Japan was in any case the main thing which we wanted to get out of the Summit. But this may mean that you will have a special role to play first in persuading Carter to be as forthcoming on energy as he possibly can and then in persuading Schmidt that this is sufficiently good to justify German action on growth.

6. The thing we will have to watch is if the Americans try to divide the Europeans over trade. They would no doubt like us to join them in attacking the French and Italians on agriculture and then get the Germans to join them in attacking us over subsidies and safeguards. In resisting any pressure to settle outstanding MTN points to our disadvantage at the Summit we can rest on the argument that it is the Community as a whole which negotiates in the MTNs; that the Community position is a relatively forthcoming one; and that with give and take on all sides (including some give as well as take by the USA) there is no reason to suppose the MTNs cannot conclude successfully.

7. This is a snapshot of the situation today, but quite a lot could still happen between now and the Summit. In particular Carter and Schmidt will have spent three days together and may have settled a common line on some of these issues.

(John Hunt)

12th July, 1978