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RECORD OF THE FIRST SESSION OF THE VENICE ECONOMIC SUMMIT
SUNDAY 22 JUNE

Signor Cossiga (Italy) welcomed his colleagues to Venice, a renowned centre of cosmopolitan trade and culture. He expressed the condolences of all those represented at the death of Mr. Ohira, the Prime Minister of Japan, and recalled his contribution to the consolidation of relations among the industrialised countries.

Mr. Okita (Japan) expressed the Japanese Government's gratitude for Signor Cossiga's message of condolence and tribute. He said that Mr. Ohira had attached high value to co-operation among the industrialised countries and to Summit meetings, and had been very much looking forward to being present.

Signor Cossiga suggested that the Heads of State and Government should begin with a general economic discussion. As a result of their discussion earlier at breakfast, he thought that there was broad agreement on the draft communique which had been prepared by Personal Representatives, subject to certain comments on matters of form and length, and subject also to agreement among Heads of State and Government on a few points which had been indicated by square brackets in the draft.

This, the sixth of the Economic Summits, came at the end of one of the hardest periods which the industrialised countries had encountered, and at the beginning of a new decade which promised no less difficulty. The draft communique set out the message which it was proposed should come out from this meeting on such questions

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as inflation, the problems of developing countries, monetary instability and trade. All these were related, but the central theme was that of energy. Energy was of crucial importance to a country such as Italy, which had no indigenous sources, and was dependent as to 68 per cent of its total requirement on oil. Italy had a strong interest in a broad energy policy which comprised the reduction of oil consumption and the development of alternative sources of energy. Italy supported proposals for specificity and quantification in this field; but a political commitment came before detailed strategy. It was important that the Summit should contain a clear commitment to the development of nuclear power, coupled with clear assurances on the need to ensure safety.

In all discussions of energy the limiting factor was the attitude of the OPEC countries on the price and supply of oil. The recent decisions of OPEC on the price of oil had grave implications for the developing countries. The Summit conference should note the gravity of the situation, but should also express a readiness to engage in dialogue with the OPEC countries, at least some of whom realised the problems which were being created.

Italy did not see the need for new formulae or the creation of new institutions; the existing channels would suffice.

On recycling, measures of intermediation between the surplus and deficit countries could not substitute for the appropriate macro-economic policies and structural adjustment, but such measures would be necessary in the short term. The private banking system had still a major part to play, but international financial institutions would need and were ready to play a greater role.

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Signor Cossiga hoped that the conference would indicate how the Summit countries were prepared to increase international mediation.

The most immediate threat to the industrialised countries, and particularly to Italy, was inflation. The effects of inflation were devastating, both domestically and internationally. It depressed investment; and it led to the indexing of incomes, in a way which built rigidities into the economic system. There was a new realisation that Governments needed to create the basis for balanced growth, and that that involved clear and firm fiscal and monetary policies to reduce inflation.

Signor Cossiga said that in Italy GNP had grown by 5 per cent in 1979, and was expected to grow by 3-4 per cent this year. While that was reassuring, the consequence of the oil price increases had been a serious effect on the balance of payments. The social partners, mindful of the problems of 1975, were acutely conscious of the risks of recession. He could not remain insensitive to the appeal which he had received from the representatives of the trade unions. Mass unemployment would challenge the survival of democratic societies. It would therefore be right for the industrialised countries to commit themselves to a strategy which sought to counter price inflation but which did not increase unemployment. Policy on demand should have as its object the reduction of inflation; but there should be a complementary policy on the supply side, which should concentrate on the provision of new jobs in high technology and in energy supply. On this would depend the co-operation of the social partners.

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The summit countries would need also to have regard to the plight of the Third World, and this not just for economic but also for political reasons. They should clarify their position in the preparations for the global negotiations and the new International Development Strategy.

They should not ignore the Brandt Report. The Italian Government supported the idea of a North/South Summit, subject to appropriate caveats. The wording in the draft Communique was positive, and should produce a positive response.

Italy supported the idea of a new affiliate of the World Bank, as part of a major international effort to assist the developing countries with their energy production. This initiative could well provide a basis for a dialogue between oil producers and consumers.

Signor Cossiga saw the need for a greater commitment by all three groups of the countries concerned - the industrialised countries, the communist countries and the oil exporting countries - in development policy. The communist countries and the oil exporting countries had contributed less than they should. As for Italy, she had doubled her official development aid, and expected to reach the OECD average in two years.

President Carter (United States) said that ^{the} economic summits were valuable to him, as the leader of the United States. The 1970s had been a turbulent decade; the 1980s would be more so, unless the countries of the industrialised West co-operated. We
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could well see a decrease of 10 per cent or more in oil supply over the next decade, though we were committed to sustaining economic growth. The United States was looking forward to the next 10-15 years. Congress had been reasonably forthcoming in taking action to reduce United States oil imports, to reduce consumption and waste of oil, and to develop indigenous alternatives to oil. He foresaw expenditures of \$80 or \$90 billion ahead in this regard.

In the economic field, each of the countries represented faced difficult decisions for itself; these decisions were made easier if the leaders of the countries met and agreed together. He agreed upon the need for tight monetary measures and tight and prudent fiscal measures. In the United States the Administration had taken strong action to reduce prices. Interest rates were now falling, but there was a threat of recession and an increase in unemployment. The Administration was resisting demands for higher Government expenditure.

In the energy field, the aim was to consume less energy in 1990 than now, while still accommodating economic growth. The people of the United States were inclined to accept this objective. The United States was blessed with coal and shale oil, as well as oil and natural gas. Hitherto they had been profligate in the use of their energy resources, but the national attitude was now changing. The goals set at the Tokyo Summit in 1979 had been constructive for the United States. Oil imports were down by 10-12 per cent in the first five months of 1980, compared with the corresponding period for 1979, and the United States was looking further ahead as well.

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The control of inflation remained, however, the top economic priority for his Administration. It would not be easy in political terms, but he would stick to that.

Turning to the developing countries, President Carter said that the action of OPEC in grossly increasing oil prices had been irresponsible, and ought to be strongly condemned by this meeting. The industrialised countries could survive; some of the developing countries could be devastated. The countries represented at the meeting should not only admonish the OPEC countries about the rapid increase in prices but should also encourage them to share with the industrialised countries the responsibility for dealing with the consequences of the oil price increases. There was now intense sentiment against foreign aid in the United States, though it was easier to find support for food aid and technology than for other things. The energy problem remained paramount: there were no signs of a fall in oil prices despite the present supply glut, no doubt because OPEC were now more sophisticated in managing prices and production. The industrialised countries had to decide how to deal more effectively with the developing countries, and to involve OPEC in helping. The problem was large: on average the developing countries were spending 25 per cent of their export earnings on imports of fuel, and for many of them the cost of imported oil and debt service absorbed the whole of their foreign exchange earnings.

The President said that the draft communique prepared by Personal Representatives was in his view very good, and he would wish to suggest only minor drafting changes.

/President Giscard

President Giscard d'Estaing (France) said that, despite the interest in political matters on this occasion, he wished this to be considered to be primarily an economic summit. As one of the initiators of economic summits, he recalled the emphasis that had always been placed on economic and monetary matters.

This was the first summit of the 1980s. The situation had become very difficult over the last four years. The hope and confidence of the 1960s had given way to different feelings about the prospects of inflation, rising unemployment, and rising oil prices. The mood was now one of scepticism and anxiety. It was the responsibility of this meeting to answer that scepticism in terms that were credible. Though he was in general in agreement with the proposed draft Communique, the situation which he had described might call for measures going beyond those reflected in the Communique.

President Giscard highlighted a number of objectives -

(a) The summit should condemn the repeated and unjustified oil price increases. There had been a case for increasing the prices when they were very low, but recent increases had gone far beyond anything which could be justified by economic interest. The Summit should say so: not in defensive terms but in terms to which moderate OPEC opinion could respond.

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(b) The central idea of the Summit's energy strategy should be to explain to public opinion that the industrialised countries were going to break the link between oil imports and growth. If there had been pessimism in the countries represented, it was because people believed that the existing links between growth and oil imports were unbreakable. Summit leaders must say that their countries were capable of breaking this link by a number of measures. In Tokyo they had decided to restrict oil imports, and five of the seven countries represented had not only achieved but exceeded their objectives. This year it would be a mistake merely to reiterate existing commitments; it would be important to say more strongly than before that it was possible and necessary to loosen the link between growth and energy.

(c) The draft Communique referred to the potential for increasing the supply and use of energy sources other than oil over the next 10 years by the equivalent of 15-20 million barrels a day. The Summit meeting should go for the highest figure in this range; and, in order to ensure that the commitment was seen to be realistic, should consider how it could be achieved. Since the Summit leaders were to meet every year, it would be useful to create a monitoring group as a demonstration to achieve their objectives.

(d) The Summit had to deal with the problems of inflation. He might wish to revert to this subject later.

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(e) The text of the draft Communique on relations with the developing countries did not touch upon the need to develop the political and institutional context for aid to the developing countries. The development aid concepts worked out in the 1960s were not suitable for the 1980s. In particular, the industrialised countries were caught in a paradox of their own making. They were virtually the only countries that provided development aid. 90 per cent of aid to the developing countries came from them. At the same time they were the only countries criticised by the developing world for their failures. This was the result of bad political organisation in the system. Aid to the developing countries should be the responsibility of three groups of countries: the industrialised countries of the free world, the oil exporting countries and the socialist countries. These last had stayed on the sidelines for too long. If the industrialised countries of the free world did not develop a more imaginative system they would never escape from the paradox. In preparing the draft Communique the Personal Representatives had remained within the traditional framework of concepts. The Summit meeting should entrust Personal Representatives with the task of thinking through proposals for far-reaching changes in the structure and distribution of development aid.

Chancellor Schmidt (Germany) said that he was in general agreement with President Carter and President Giscard.

The world would be able to absorb the most recent oil price increases with far greater difficulty than it had absorbed the

first. Oil prices were now between 15 and 20 times higher than they were in 1970. There was no escaping from the figures: the oil exporting countries now had an aggregate surplus of \$120 billion, while the industrialised countries had an aggregate deficit of \$70 billion and the developing countries had an aggregate deficit of \$50 billion. How could those with a deficit of \$70 billion assist those with a deficit of \$50 billion? So far as the industrialised countries were concerned, the increase in oil prices would create profound recessionary pressures in 1980-81, to which the effects of the recession in the United States would be added. These pressures would lead to increased demands for protectionism.

In Germany the forces for growth were still strong: the Chancellor expected a growth rate of about 3 per cent in 1980. Consumer prices were expected to rise by about 6 per cent, unemployment was at 3 per cent. The Federal Government would continue to follow a resolute monetary and fiscal policy. It would be wrong to stimulate and create demand. Too much money was being printed, and it would not create new jobs. The Government would however move on structural adjustment, and particularly on measures to save energy and substitute for oil. Some people were concerned about the move of the German balance of payments into deficit; but Germany had large reserves, and could carry a deficit for a period of time, and the Government would be seeking to adjust the deficit over the next few years, not to enforce adjustment in the short term. The Chancellor reminded the meeting that the move into deficit was partly the result of Germany fulfilling the obligations he undertook at the Bonn Summit Conference in 1978.

/The Chancellor

The Chancellor said that the OPEC surpluses produced by the latest round of oil increases would not be reduced so quickly as the surpluses which followed the 1973-74 round of increases. Some of the non-oil developing countries had been hit very hard indeed, and had reached the limit of their potential indebtedness. Attempts to deal with their problems by recycling with loans of petrodollars would be self-defeating, and the concept of recycling needed further study.

The Chancellor was deeply worried by the explosive growth of the xeno markets. This presented three unsolved questions:

1. How to prevent the activities of international currency markets from undermining national policies.
2. How to ensure that Euro-banking was subject to proper prudential considerations.
3. Who should fulfil the role of lender of last resort.

If answers were not found to these questions, and particularly to the last, there could be a "black Friday" of global dimensions. Several countries were now very high risk borrowers. Some of them were raising loans simply to finance maturing debt; two-thirds of all Euro-dollar loans were now required to finance maturing debt. There was no sense in this, and nobody was controlling it. In addition the maturities of loans had got longer and longer, while the deposits on which they were based still remained at short term. Provision should be made against the possibility of events that could create world-wide damage. The Summit should appeal to Finance Ministers and central bank governors to sit together and do something. The Group of Ten had done something, but not enough, and they should do more. A welcome should be given and further analysis should be made of Dr. Gut's proposal at New Orleans for private banks to create an international safety net.

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The Chancellor said that he had voiced his worries about these matters for four years. No disaster had yet happened; but that did not mean that nothing would happen. He was deeply worried.

The Chancellor said that, as regards energy, German oil imports in 1980 were less than in 1973, despite the growth of Germany's gross domestic product.

As regards the developing world, the Chancellor said that the latest round of oil price increases had been even more devastating in its effect than the first. The oil bills of the developing countries amounted to about \$50 billion, and accounted for the whole of their aggregate balance of payments deficit, and twice the amount of official aid provided by OECD countries. These magnitudes were not understood by those who preached the need for more aid. It was impossible for the industrialised countries to make up for the misery and starvation being imposed on the developing world by OPEC.

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Some of the more advanced developing countries like Brazil, South Korea and Taiwan, could to some degree manage their oil deficits for themselves. These countries accounted for about 40% of the total deficit of the non-oil developing countries. But countries that accounted for 60% of the total deficit were not able to help themselves in that way, and countries like Tanzania, Somalia and Turkey were in a deep mess.

The Summit Meeting should make it clear that responsibility for solving this problem belonged with OPEC and not with the industrialised countries. He agreed with President Giscard that the Communist countries should also be included; he had said something like this at Puerto Rico. At present the Soviets provided only military help. They should be called upon to give economic aid.

OPEC could help either by recycling oil surpluses in the form of grants to the most seriously affected countries or by reducing their prices, at any rate, to those countries. He had said as much to many of the OPEC leaders. They said they were already providing a lot of aid - a total of \$4½ billion - but it was only to Islamic countries.

The Chancellor would be hesitant to create new financial institutions, though there would need to be a series of debt rescheduling conferences over the years. He spoke out even

more strongly against any changes in IMF conditionality.

The IMF was a banking institution, not an aid or charity organisation, and it should be the one international financial institution motivated by considerations of sense and prudence. agreed
The/additions to the resources of the international financial institutions should proceed, but the creation of new financial gimmicks would not help. The members of OPEC should be pressed to assume a role commensurate with their strength. How could the industrialised countries with a deficit of \$70 billion give more help to the developing countries with a deficit totalling \$50 billion? These were the facts and figures, and the United Nations and the bishops either did not understand them or pushed them on one side if they did.

The Chancellor referred to the suggestion of the Brandt Report for a private North/South summit. He recalled that he and Mr. Trudeau and others had attended a meeting in Jamaica two or three years ago with a small group of leaders of developing countries. He had come away with a number of new insights. He saw something to be gained by holding such a meeting, though he understood all the difficulties of choosing who should attend. He had made it clear to the Secretary General of the United Nations that he would not take the initiative for such a conference or host it, but he would attend if he was invited. At such a conference three things should be made clear:

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(i) The industrialised countries of the West had increased their aid by 40% over 24 months. The additional finance that would be required in the 1980s would have to come from OPEC and not from them.

(ii) The developing countries would have to do something to contain the growth in their population. This was something which had to be understood not only by the leaders of the developing countries but by the Roman Catholic Church and by the Pope in Rome. When the Chancellor was at school the population of the world was 2,000 million; it was expected to be 6,500 million by the end of the century. It was impossible for the world to feed, educate and find employment for this sort of growth of population.

(iii) Luxurious aircraft and national airlines were not a first priority for developing countries; they should concentrate above all upon the improvement of their agriculture.

Mr. Okita (Japan) said that summits of the seven had proved useful, and this at the beginning of the 1980s was specially significant. The world stood at an important junction on energy. Structural changes in energy supply and demand would be required in the 1980s. If oil would be in short supply, coal and nuclear fuel were not; the problem there was

lack of technological innovation and investment. As we looked towards the 1990s the free democratic nations were travelling in the same gondola and they should realise it. It was to be hoped that the gondola carrying the developing countries was travelling in the same direction. So far as Japan was concerned the rate of growth in 1979 was 6% and a rate of about 5% was forecast for 1980. Growth in 1979 had been led by increases in domestic consumption and investment, in accordance with the commitments entered into at the Bonn Summit. Consumer prices were up by 7-8% as compared with a year ago, despite increases in commodity prices of about 40%. Japan had been fairly successful in containing her prices, offsetting the increases in commodity prices by improved productivity and anti-inflationary measures. That would continue to be the basis of Japanese policy.

Some of the other industrialised countries were experiencing double-digit inflation. The increase in oil prices was not the only cause of this; there were domestic inflationary elements including wage-price spirals which must be recognised and dealt with. In the longer term the Western nations must strengthen their economic structures and institutions. The Soviet countries were curbing consumption and pouring resources into defence. The Western countries should curb consumption and aid in order to increase investment/to developing nations.

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As to energy, there should be a distinction between oil shortage and energy shortage. The world would look increasingly to coal and nuclear power as alternative sources of energy in the 1980s. Coal deposits in the world exceeded oil reserves by seven times or more. Japan had made a ten year plan for the development of primary energy resources which would reduce the oil content of her energy use from 73 to 50% by 1990. Mr. Okita hoped that the communiqué from the Summit would be specific on these matters, so as to give a stimulus to policies of this kind throughout the industrialised world. Japan had shown that it was possible to reduce oil consumption while increasing growth by 33%.

Turning to the developing nations, Mr. Okita said that their economic difficulties were grave, and a major responsibility rested on OPEC. It was to be hoped that OPEC would keep in mind their plight and much increase aid to them. At the same time industrial countries must re-double their efforts to increase their aid. At the Bonn Summit the Japanese Prime Minister had committed Japan to double her official development aid in five years. Japan was on course to achieve that target. She had greatly increased her aid to Turkey, Pakistan, and Thailand. One objective was to strengthen the resistance of these countries to internal conflict. Grants to the developing countries would continue to be in line with that policy.

The needs of the newly industrialised countries were rather different: they required markets rather than aid, and

could be a dynamic element contributing to the development of the world economy. The industrialised countries needed to proceed with structural adjustment of their economies so as to absorb more exports from the newly industrialised countries.

The Japanese Government welcomed the Brandt Report as valuable and significant. It would help to improve recognition of the plight of the poor nations. Some of its recommendations were ideological but it had the right philosophy for the people of the world.

On the proposal for a North/South summit, Japan thought that such a meeting could be useful and welcome at the appropriate time and in appropriate circumstances. It would carry some risks but would also present opportunities.

Mr. Okita referred to the Common Fund. He said that the Summit Meeting at Bonn in 1978 had given its support to the rapid creation of the Common Fund. Two years had passed, and it was still not set up. The countries concerned should re-double their efforts to realise the Common Fund at the earliest possible moment. This was politically very important for the G77 countries.

Mr. Okita stressed that for the poorest developing countries it was not a matter of increased trade or more lending; what they would need would be increased grants.

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On the monetary side, the immediate problem was to absorb the balance of payments deficits of the non-oil developing countries. To this end co-operative efforts between the industrialised and developing countries should be increased. Recycling was important, but in the longer run might not be adequate; for lasting stabilisation it would be necessary to concentrate attention on the fundamental cause of disequilibrium, and to find solutions by international co-operation. Mr. Okita suggested that the concept of a substitution account might still have a part to play.

Mr. Okita said it would be important to guard against protectionism: if the industrialised countries failed to do so, there would be a serious threat to trade and employment. It might be necessary to continue some safeguards, but it remained very important to avoid any general trend towards protectionism.

In conclusion, Mr. Okita said that the industrialised West faced a strong challenge from the East, not only politically and militarily but economically. In all these respects the West must retain its superiority over the East.

Mrs. Margaret Thatcher (United Kingdom) said that she agreed with a great deal of what had been said. Over the next ten years the world had to grapple with two main problems.

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The first was oil prices and inflation. These were related but distinct problems. Many countries had been suffering from inflation before the oil price increases. Political leaders had generated expectations of rising standards and had printed money to keep their economies going. Only too late had we learned that, if one accelerates inflation, one also accelerates unemployment. It was essential to continue to follow prudent monetary and fiscal policies.

The industrialised countries had been beginning to grapple with the problems of home-grown inflation when the oil price increases had come on top of that. At the time of the Summit Meeting at Tokyo oil prices reached \$20 a barrel. Now they were over \$30 a barrel. Average inflation in the OECD was up from 8% to 14% in two years. The oil price increase and the need to deal with it was creating the threat of recession in the industrialised countries. They should all be putting massive investment into the development of alternative energy sources, despite the difficulties of embarking on such a programme at the beginning of a period of recession. She did not underestimate the political difficulties of keeping up the fight against inflation; but the reduction of inflation must remain the first economic priority.

The second problem was that the increase in oil prices was bringing about not only a redistribution of income but also a redistribution of power in favour of the OPEC countries.

Our thinking needed to take account of this fundamental shift in the structure of power. We had been accustomed to think in terms of West and East, and of North and South. Beside West and East, it was now necessary to include OPEC; and, where North and South had been taken to mean the industrialised countries of the free world and the developing countries, the concept now had to be enlarged to include a third partner which was the oil exporting countries.

The industrialised countries had the strength to carry the increased oil deficits through the international financial system. The newly industrialised countries could probably do it through the banks and the international financial institutions, though she agreed with Chancellor Schmidt that the IMF should not relax its conditionality. The poorest countries could not increase their indebtedness: they must be helped with grants, and the grants must come from OPEC. It was necessary to convince the OPEC countries that it was in their interests not to undermine the economies of the industrialised countries or to drive the developing countries into even deeper poverty. OPEC was not monolithic. It included some countries who were good friends to the Western world, and were reluctant to increase oil prices; if those prices had increased, it was as much because of the fears of the West as the greed of the OPEC countries. There were some countries in a central group in OPEC which would go along with those who were more friendly to the West; but there was a third group of countries who were hawks who would always seek to put prices up.

On the question of trade, the Prime Minister said that there were two debates which to some extent conflicted. There was the argument that the industrialised countries could help the developing countries by opening their markets to increased exports, but there was also the argument that increased imports from developing countries could undermine domestic industries.

The Prime Minister said that President Giscard had remarked that the industrialised countries who gave most of the official development aid were those who were most criticized for their performance. She was inclined to agree with him that we were not always able to give as much as we could in bilateral rather than multi-lateral aid. President Giscard had also suggested that we should try to draw in the Communist countries. The Prime Minister questioned that. The performance of the Communist countries had shown that they only gave aid when it was tied to increased political influence: Afghanistan and Cuba were examples of that. If the Communists were to be invited to give more development aid, it must be without political involvement if it was to be acceptable.

Finally, the Prime Minister re-emphasised her main theme, the need to tackle inflation as the top priority and the need to involve the oil exporting countries in the business of the developing countries.

Mr. Trudeau (Canada) said that he could not improve on the economic survey provided by his colleagues. He would make

three points by way of comment.

First, he would like to strike a note of moderate optimism. Since the summit meetings began, the industrialised democracies had met more or less satisfactorily the challenge imposed by the opposing ideology of the Soviet block. At each meeting there had been a sense of impending doom, whether the problem was recycling, the trade war, the revolt of the young, or inflation. The Western countries had responded to each of these challenges, and in a sense the political leaders had shown themselves reasonably in control. The West had responded to the oil threat without disastrous disruption, and by 1990 could look forward to having solved the energy crisis by conservation of energy and the development of alternative sources to oil. Thus the West had shown the Third World that it had managed and could continue to manage its crises. It had not managed the North/South crisis so well, though some progress had been made even here; witness the Lomé agreement and the Jamaica mini-Summit to which Chancellor Schmidt had referred. On the political side, however, the West had not shown the same degree of control, and had given more impression of disarray.

Secondly, Mr. Trudeau approved the language of the draft communiqué and its emphasis on inflation. But it should be realised that much would depend on the depth of the impending recession, particularly in the United States. Before the next summit it might be necessary to consider measures to reduce unemployment as well as the problems of inflation. Perhaps

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the monitoring group on energy proposed by President Giscard, which he would welcome, could also keep an eye on the depth of the recession and the measures taken to counter it. In Canada it might be necessary by the autumn to stimulate employment. We should see how we went before we committed ourselves to fighting against inflation as top priority for a full year.

Thirdly, President Giscard and Chancellor Schmidt had suggested that the Summit should use strong words in condemnation of the oil price increases. Mr. Trudeau suggested that this should be done "somewhat in fear and trembling", and not in such a way that our friends and allies might be hurt or weakened. It was important not to lose sight of the fact that oil exporting countries did not need to increase their prices in order to increase their revenues; there could be a time when they might wish to reduce their exports in the interests of internal stability, and to increase prices to compensate for a reduction in production.

Commenting on the plight of the developing countries, Mr. Trudeau suggested that it should be indicated to OPEC - perhaps at a North/South Summit on the lines suggested by the Brandt Report - that it would be preferable that there should be no further increase in oil prices but that, if there was to be an increase, it should be totally redistributed to the developing countries. If there was to be such a summit, it

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should be arranged in a way and at a time when it could be prevented from being a confrontation of power blocks and could be used to increase understanding of the problems. It might be desirable to involve Communist countries in such a summit, subject always to Mrs. Thatcher's point that any increase in aid from those countries should not be tied to political influence. He was not starry-eyed about this idea; but it could expose the Communist countries to our scrutiny about their principles and objectives.

Mr. Jenkins (Commission of the European Community) said that all were agreed about the need for major structural change to reduce dependence on oil. The European Community was not lagging behind in this. Its dependence on oil had fallen from 61 to 55% of total energy requirement, and would be down to 40% by 1990. The Community's oil consumption was down by 9% in 1980 compared with 1979, and its imports down from 472 million tonnes to 450 million tonnes this year. Only half of that was due to increased North Sea output, the rest was attributable to oil saving and the growth of nuclear power. The Community would be looking at investment on oil saving and on alternative sources. The communiqué from this Summit should state simply and dramatically the need to break the link between energy and growth, and should emphasise that the massive investment required would be a valuable stimulus to demand. A common approach in the communiqué would be a valuable contribution to public understanding of the problems.

/Mr. Jenkins

Mr. Jenkins was inclined to share Mr. Trudeau's views about the need to strike a balance between the risks of inflation and recession. Inflation might be peaking but recession was not. This called for no drastic switch of policies at this stage, but for constant vigilance and a readiness to show flexibility in order to avoid an economic nose-dive.

The position of the poorest countries added to the problems of recession in the industrialised countries. The recent agreement at Algiers was estimated to have reduced growth prospects by 2% and to have increased inflation by 2% in the industrialised countries, but it could prove to be critical for the poorest countries. It would be more difficult to solve the problems resulting from the price increase on this occasion, because this time oil prices were more likely to rise further than to fall in real terms, and it would be more difficult to absorb the greater indebtedness of the developing countries. Much responsibility lay with OPEC, as had been pointed out, but the industrialised countries could not divest themselves of concern: their public opinion would not allow it, and they would be affected both by the effects upon the world banking system and by effects on world trade and particularly on their exports to the Third World. At present the OPEC countries invested their surpluses in safe havens, and left the industrialised countries and the international banking system to take the risks. It was important to get OPEC directly into the Third World. He agreed that the

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conditionality of the IMF should not be weakened, but it could be made more available to countries in a different state of development. The increase in the capital of the World Bank was important.

On trade, Mr. Jenkins said that the completion of the Tokyo round was a beginning and not an end. The industrialised countries should maintain an open position in relation to the Third World; they should enable the developing countries at least to earn what they could. Otherwise, the long term interests of all would be damaged.

Signor Cossiga (Chairman) said that he would not attempt to summarise what had been said in this "tour de table" on general topics. He would only underline a few points:

1. This was the first summit of a decade which would be particularly difficult, and the response of those represented must be credible.
2. There was a general agreement that constant increases in oil prices could not be justified. They created not only the threat of recession in industrialised countries but also the most serious consequences for the developing countries which all wished to help. It was necessary to generate in the oil producing countries a sense of responsibility for assisting the developing countries.

3. There was general agreement on the need not just to reduce oil consumption but to loosen the link between energy and growth. President Giscard had suggested a monitoring group on energy.

4. At present the industrialised countries who contributed virtually the whole of official development aid were blamed for its inadequacy. It was necessary to get it across to public opinion that delay in the development of the developing countries was now the responsibility of OPEC. The burden should be shared with the OPEC countries and with the Socialist countries if they were prepared not to use it to increase their political influence. The consequences of oil price increases for the developing countries were stark.

5. Though the international banking system would be able to cope with a considerable part of the recycling problem, it could not cope with it all. The international bodies would have to take part of the load. The possibility of new bodies had been raised. The growth of international currency markets called for the development of prudential controls.

/Signor Cossiga

Signor Cossiga concluded by saying that the discussion of economic matters would be continued by the Economic and Energy Ministers in the afternoon, while Heads of State and Foreign Ministers turned to political issues. Personal representatives should begin their review of the text of the draft communique in the light of the morning's discussion, so that Heads of State and Government could have a new text available the following morning.