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NOTE OF THE SECOND SESSION OF THE INTERNATIONAL CONFERENCE
AT PUERTO RICO ON MONDAY 28 JUNE 1976 AT 0900

Trade and Investment

Opening the discussion on trade, the Japanese Prime Minister recalled that at Rambouillet he had emphasised three points.

1. He had advocated that each nation represented at Rambouillet should adopt policies which would ensure economic recovery.
2. Each nation should meanwhile avoid restrictive or protectionist measures and aim to expand world trade, particularly with the developing countries.
3. He had called on his partners at Rambouillet to ensure that the Multilateral Trade Negotiations were concluded by 1977.

Mr. Miki said that he was happy that there had been an improvement in the international economic situation and in world trade since last November. But if expansion was to be sustained, it was important that the industrialised nations should not kow-tow to protectionist measures, although they must naturally take into account trading pressures on their partners.

So far as the MTN were concerned, developments since Rambouillet had been far from satisfactory, and there was still some disagreement between the negotiating countries on basic issues. He thought that the seven nations represented at Puerto Rico had an extremely great responsibility for the future destiny and success of the MTN. With expansion and recovery under way, all of us should be working for greater liberalisation in the MTN.

Turning to investment, Mr. Miki said that private enterprise and corporations played an important part in development and in the distribution of international resources, especially in the developing countries. The multinational corporations had great significance in terms of world economy. But there was a strong need to curb and frustrate their illegal

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activities and he therefore endorsed the pledge on international investment which had just been adopted by OECD Ministers, and which he regarded as a first step towards a solution of the problem. He also acknowledged the work of ECOSOC and the Special Task Force set up by the United States Government. The industrial countries had an important role to play in maximising their investment overseas and in protecting a liberal investment climate.

President Ford also recalled the agreement at Rambouillet to complete the MTN by 1977, and he agreed with Mr. Miki that there was a need for the industrialised countries to redouble their efforts. It was essential to develop a firm partnership both between the industrialised countries and with the developing countries. Closer co-operation of this sort could also help to reduce the disparities and weaknesses in our own economies. We must not allow short term considerations to impede the MTN, and the US Government was prepared to take a lead at Geneva. He had himself put forward certain proposals which had been fully discussed with private advisory groups in the US and with Congress, and he could say that the US Government's trade policy was strongly supported by both parties. These proposals included suggested tariff cuts greater than those in the Kennedy round, and he hoped that they would obtain the support of his partners. Without a tariff cutting formula of this sort, there was a risk that the MTN would be stalled. There was also a need to improve the international trading structure and joint leadership was required from all those at this meeting. The work done in OECD and other fora was useful, and he thought that the MTN should contribute to better trading relationships between the developed and the developing countries. There was a need to explore how far the developing countries could assume responsibilities in the world trading system. The industrialised democracies should work for a more open trading system and for the objectives agreed at Rambouillet. He proposed therefore that there might be a meeting at Ministerial level early next year of all those represented at the Geneva negotiations at which the whole range of trading services and inter-relationships, as well as the lowering of trade barriers, could be studied.

/The Italian

The Italian Prime Minister stressed the need for a realistic approach to international trading and thought that the first requirement was to note that the development of world economy was closely linked with liberalisation, both tariff and non-tariff. Liberalisation could lead both to increased prosperity and to better distribution. This was of particular significance at the present moment when there was a trend towards increasing international trade. The favourable forecasts which had been quoted at this meeting should lessen the pressures for introducing protectionist measures. He recognised that national Governments were under strong protectionist pressures, and that it was not always easy for them to ensure that the general economic interest prevailed. In a situation of emergency, the Italians had adopted measures which had been designed to stop the fall of the Lire and to restrict liquidity. But he did not think that barriers should be erected. Signor Moro added that foreign support was indispensable if the economic balance was to be recovered.

There was a need to give an additional impetus to the work already done at Geneva, and he referred to the progress which had been made in some sectors such as tropical products. The EEC would certainly not allow its support for these efforts to fall short, but he still thought that there was a need to give greater consideration to the requirements of the developing countries.

Turning to investment, President Ford said that he wished to make a short statement for the record. The United States had long accepted, in the GATT context, the need to avoid restrictive policies and he thought that the industrial countries should now do everything possible to liberalise the atmosphere of international investment. All of us would benefit from continuing success in the world investment climate and there was a particular need to avoid any impression that the multi-national corporations harmed their host countries.

President Ford therefore welcomed the three part package which had been adopted by the OECD Ministerial Meeting, which was an important initiative and should encourage the liberalisation of capital flows.

President Ford said that revelations of bribery by the multi-nationals had undermined international confidence, quite apart from their ethical abhorrence. Full support was necessary for developing and adopting some early agreement on this subject, and he referred particularly to the work being done in ECOSOC. He had himself recently made legislative proposals on disclosure which were likely to be adopted by the United States Congress this session. There were pressures in Congress to go even further and to institute criminal sanctions. He did not know how this would come out in the end.

The Canadian Prime Minister said that President Ford's proposals on corrupt practices was a very courageous, not to say bold, step. He would personally like to take similar measures in support. But he questioned how effective these measures were likely to be if there was no corresponding intention in the countries who were receiving investment and aid. What President Ford had proposed was tantamount to an attempt to export morality, and he wondered whether this was realistic. It was difficult enough to impose morality in one's own country and his own soundings of some of the ldc's showed that they were sceptical about whether it would work. All of us realised that if some of the industrialised countries proceeded with measures unilaterally, they risked locking themselves out of world markets.

President Ford said that this was partly a domestic problem for the United States. There was a sincere drive in the United States to cleanse all people and organisations connected with Government, and this had international ramifications which could not be ignored. If all the countries represented at Puerto Rico were to take similar action in good faith, this could exert significant pressure on the ldc's. Time would tell; and he agreed with Mr. Trudeau that there was a conflict here between practicality and idealism. Personally, he thought that we should go as far as insisting on public disclosure and that this would have deterrent value. He accepted that it could also have a significant impact on competitiveness, but there would be a beneficial practical impact if the whole of the Puerto Rico group could support it.

Mr. Trudeau agreed with this and thought that morality was one of the things which could give the industrial democracies a sense of leadership and ideology. The creation of a good investment climate, however, was not so much a question of morality as of economics. He was sure that President Ford was right to say that a free flow of investment was desirable. But how realistic was this? A lot of countries needed to control their own domestic and economic environment. Canada had only imposed this sort of control on foreign investment within the past three years and any steps which they now took in terms of "economic nationalism" should merely be seen as an attempt to catch up on what others, except possibly the United States, had been doing for years. He doubted whether President Ford's remarks about the investment climate were accepted by two-thirds of the world. He had no wish to undermine what President Ford had said, but the Canadians could now allow uncontrolled investment there, and he could not see the ldc's accepting it either. Perhaps this was all an unfulfillable dream.

President Ford said that if the ldc's did not accept it, how could they hope to move towards the sort of expansion they wanted? Mr. Trudeau said that this was a matter of negotiation and of going for as fair a deal, in terms of 51 per cent ownership and so on, as they could get. Economic nationalism might lead to poverty, but might still be preferred if this gave the individual country a sense of genuine independence.

Mr. Simon said that Chancellor Schmidt had touched on the question yesterday, and had emphasised the need for a shift towards liberalisation of investment flows to meet capital requirements which were now estimated at something like 4½ trillion dollars. The United States had tried to remove restrictions on foreign borrowing (including Canadian borrowing). No country could be expected to rely on its own reserves of capital alone. Indeed, the need for capital was so great that it was likely to flow to where the opportunities and the freedom were greatest.

/Mr. Miki

Mr. Miki said that Chancellor Schmidt had yesterday raised a question about the percentage GNP of those represented at Puerto Rico. What he had meant to say was that the Puerto Rico participants represented 60 per cent of total world GNP, in so far as one could estimate this, given the unavailability of reliable information about GNP in Eastern Europe and the Communist countries.

On the question of multi-national corporations, Mr. Miki said that Mr. Trudeau had pointed out the difficulty of controlling their activities, and he agreed. But it was nevertheless very important to apply a high code of ethics and the international corporations must respect the West's legal systems and adopt a minimum standard of ethics. Bribery might give some temporary advantage, but it could not in the long term contribute to the expansion of the international corporations themselves.

East/West Relations

The Prime Minister said that since they had met at Rambouillet and discussed our own concerns, the Soviet Party Congress had shown that we were not alone in our troubles and that the Soviet leadership were themselves concerned with economic problems. Brezhnev's speech had shown that many of the targets for the last Five-Year Plan had not been reached. The Russians had had two disastrous harvests and, as President Ford had said yesterday, although the short term situation might be a little brighter, there were bound to be continuing food shortages, as long as they organised their agriculture in the way they did. Consumer interests, despite their importance as incentives to greater productivity, had again been relegated to second place. (The Prime Minister commented that Mr. Simon would no doubt be glad if the same applied in the United States also in view of the need for capital.) Brezhnev had stressed the difficulties which would arise from the increasing cost of extracting raw materials, the need to invest heavily in the economic infrastructure and the fact that the labour force would grow at a smaller rate. It seemed certain that Soviet economic growth would slow down during the next five years.

/So the East

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So the East Europeans had their problems too. Chancellor Schmidt had mentioned the point about the growing indebtedness of East European countries to the West. It had stood at about \$2½ billion in 1973 and Chancellor Schmidt had yesterday quoted a figure of \$40 billion by the end of this year. We would ourselves put this figure somewhat lower, but whatever the imbalance, we knew that it had been caused by the serious effect on Eastern Europe of the recession (exports to the West had fallen by at least 4 per cent); by the increased demand for exports, particularly of capital equipment; and also by the attractive credit terms offered by the West. Borrowing by East European countries had risen substantially last year and German, American, French and British banks were all particularly involved, with Germany as the biggest creditor. As he had said yesterday, it seemed as though British and American export business had been more directly commercially motivated, whereas the motivation for German involvement seemed to some extent to be political.

Against this background, the Prime Minister agreed that we must make a success of the recent agreement to co-ordinate export credit policies governing interest rates and lengths of credit on a world-wide basis, especially in our relations with Eastern Europe. Their centralised regimes put them in a strong position to play off competing suppliers against one another; we had all been subjected to this at one time or another and had all fallen down. There was no doubt that by playing suppliers off against each other in this way, they had been able to chisel off the odd percentage point here and there, and the Prime Minister thought that we should take the earliest opportunity to come into line. It made no sense for us to compete with one another in offering soft credit, and he was sure that we should not allow ourselves to be fooled by Soviet claims that their arms supplies to the Third World in some way compared with our aid flows.

/Many Western

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Many Western banks now thought that the interest rates demanded by the Soviet bloc for Euro-currency borrowing were unrealistically low, and some banks who were traditional lenders to Eastern Europe were at what they regarded as their prudent limits for individual countries. Also, with the fall in the price of gold, and if prospective sales by the IMF depressed the price further, the Soviet Union might need to increase yet again its demand for Western credit.

/As he had said

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As he had said yesterday, our view was that while the growing level of East European indebtedness needed watching carefully, there was no real need for serious anxiety about default. We had no serious doubts about the credit-worthiness of the Soviet Union, although as to the others we would put a limit to the total commitment we would take. The post war record of commercial repayments of these markets was second to none. At worst the banks might possibly have to roll over a certain amount of lending for individual countries. But outright default seemed extremely unlikely. Nevertheless we must keep our credit and trading policies under continuous review on purely commercial grounds.

He agreed with Chancellor Schmidt that these problems had a direct bearing on the Soviet interest in detente. Their existing defence effort was costing them, on our latest estimates, between 11 per cent and 12 per cent of their GNP and he imagined the Politburo would not welcome a renewed burst of competition in strategic weaponry; they no doubt looked at their budgets as we looked at ours. It would increase the burden still further, whilst the technology odds would be against them.

So we should use credit arrangements, and the need of the Soviet Union to import Western technology or indeed their need for grain as economic levers, directly to influence Soviet external policies. Did this offer us an opportunity to apply political conditions to economic relations? He did not believe this was realistic. Whilst we ought to apply the rules of commercial and financial prudence to East/West trade, as to any other, any attempt to curtail economic relations with the Russians for political reasons would simply arouse Soviet hostility without bringing them to a more co-operative frame of mind. The Soviet leadership could not allow itself (any more than we could) to appear to be pressurised into adjusting its political or ideological policies as a result of offensive economic measures. On the other hand these economic relations could increasingly involve the Soviet Union in a stable and mutually beneficial relationship with the West which it would not be in their interest, or ours, to disturb.

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We believed that the consolidation of detente, and with it the development of economic relations, were in the Western as much as in the Soviet interest. The growing involvement of the Soviet economy with our economies had long-term consequences in that it progressively limited the extent to which the Soviet Union could damage Western interests without doing comparable, considerable damage to its own. The Soviet Union admitted no contradiction between its desire for detente in Europe and its assistance to what it called "liberation movements" elsewhere, for example in Angola; nevertheless his judgment was that, if we took Africa as an example, its response in any situation was likely to be pragmatic and would be strongly influenced by the way in which the West was likely to react. As Henry Kissinger had put it in his lecture to the Institute for Strategic Studies in London on Friday, we should not allow the Soviet Union to apply detente selectively. Detente was "spotty" at the moment. We must resist division and maintain the closest co-ordination. The realistic means of ensuring that the Russians behaved with caution and restraint were likely to be through the tangible political and traditional ways of maintaining political balance in the world backed by the necessary military balance.

In conclusion, the Prime Minister said that our trading policies with the Soviet Union needed careful scrutiny: we had been competing on credit and must do more to co-ordinate our policies. Whatever we could do in this field, he was sure that we should still adhere to the doctrine of a military balance between East and West.

/President Ford

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President Ford said that the inefficiency of the Soviet system required a greater investment to produce a given output, but this did not give them a greater capability. He thought that it would be useful to undertake a constructive analysis of the impact on the Soviet Union of maintaining its current military capability and economic development.

Chancellor Schmidt said, with reference to the Prime Minister's statement, that in his intervention the day before he had not meant to suggest that credits to the Soviet Union and East European countries should be curtailed. But, in the light of their substantial and rising indebtedness, he had wanted to draw attention to two points. One was that so far the Soviet Union had been a very solid and reliable debtor; this might continue. But Romania and Poland were already in serious trouble and in urgent need of capital inflows from the West. In the early 1970s, the Poles had refused to repatriate and increased number of Germans. But they had recently agreed to the repatriation of a further 130,000, just in order to secure credits worth 2½ billion Deutschmarks. They were in desperate need, and other COMECON countries were in a comparable situation. They might be forced to reschedule their debts, and this might drive them back into the arms of the Soviet Union. In these circumstances he thought that it would be fruitful if the Western countries could harmonise the conditions of their private and official credit offered to Eastern Europe. His second point was that these credits represented a net outflow of real resources from the West to the East. This had permitted them to step up their defence spending to a level of 11 to 12% of their GNP. They would not have been able to do so if, at the same time, they had had to finance their fixed investment in other sectors of the economy. He was not suggesting that a squeeze should be put on them, but he was raising the question how far it was in the Western interest to continue this transfer of resources.

/All development

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All development assistance represented a transfer of real resources. For moral and political reasons the West should be transferring a greater proportion to the developing countries. Germany bore her fair share of this, but he had to ask how much he could put on the shoulders of his own tax payers. We needed to be clear about the priorities. He went on to refer to cynical remarks made to him by Soviet leaders about the "niceness" of Western countries who competed with each other to see which would give the greatest credit to the Soviet Union. We ought to be clear what our policy should be over the next five years. In the short term, everyone was interested in expanding their sales to the Soviet Union because it gave employment to the factories and to the labour force. He thought that there could usefully be a strategic analysis of the question whether our short term goals, with their consequences on detente, might engage Western resources in a direction which was not favourable in the long term.

President Giscard said that East/West trade had only recently become a matter of major economic and political consequence. In 1969, trade with the East had been worth \$15 billion; in 1975 it was worth \$52 billion. This change in scale was a change in nature. It affected everyone, though Germany represented the biggest proportion and the United States, except for foodstuffs, represented a fairly small proportion. This trade was now in structural deficit for the socialist countries. He had talked with Kosygin in 1963, who had told him that the Soviet Union would never accept a deficit in their trading balance. Now the socialist countries faced growing deficits - in 1969 \$1.7 billion, 1973 \$6.5 billion, 1974 \$7.3 billion and in 1975 even more. These deficits had led to a different approach to the West by the socialist countries, though the Soviet Union itself, which had debts of \$40 billion, was backed by its enormous natural resources and gold production worth a billion dollars a year. The situation was different among the East European countries whose collective debt was \$30 billion, a very large figure when considered in relation to their real

capacity and their economic fragility. Both Romania and Poland were desperately looking for foreign finance. This was a matter of economic and political significance. First, it was an issue of such importance that they ought not to let it be handled just by the experts. Second, there was a difference in the situation of the Soviet Union and the East European countries. Trade with the Soviet Union was to the West's advantage in that it led to a growing Soviet dependence on Western technology. So far as the East European countries were concerned there were real dangers that some might face bankruptcy. It was not in the West's interests to push them towards this and it was possible that the Soviet Union might not be prepared to bail them out. There was a need for careful and co-ordinated study. A third aspect was the question of trade competition. Fourth, there was the question whether we should transfer capital to the developing countries when the socialist countries were doing nothing. They should be persuaded to contribute finance for economic development. At present it was an advantage to them over us that they could use their resources for their own benefit. Fifth, he agreed there should be co-ordination of credit policy, though the differences between Western countries should not be exaggerated and the notion of credit competition was a relatively artificial one.

Dr. Kissinger said that they had covered fairly fully the commercial and economic aspects of East/West trade. The discussion had raised problems like what priority should be given to it as against North/South relations, and how far the West could accept taxes on its population, the outcome of which was to make life easier for East Europeans. He thought that they agreed over the futility of Western competition on credit terms. These questions should be handled through the normal economic mechanisms. They had not considered so seriously the political aspects. The Administration had fought with Congress over proposals designed to make United States trade with the East easier. But Congress had insisted on amendments which would affect the domestic legislation and policies of the Soviet Union. No self-respecting country could permit others to dictate its own domestic

/legislation

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legislation and it was self-defeating to try. But he was not sure that the same principle should be applied to foreign policy. Foreign policy was matter of external pressures tacit, expressed or implied, and all foreign policy decisions were based on an assessment of the consequences of each action. He thought that it was legitimate to look at the use of economic levers to influence foreign policy. Seven years ago the US Administration had developed the concept of linkage - of setting improvements in economic relations against foreign policy changes. This had not meant calling for specific Soviet actions, but had related to overall Soviet conduct. They had not given open-ended credits to the Soviet Union nor had they tied themselves to specific projects; but they had given themselves influence on the Soviet economy in a limited way. However the Jackson amendment and Congressional action had deprived them of this leverage. When the Soviet Union went into Angola three months after the Jackson amendment, he had felt that if the Congress had decided differently, Soviet actions might have been different also. Conversely if one were to maintain the proposition that economic policy could not influence foreign policy, one might end up by financing one's foreign adversaries. If the United States did not link economic detente with foreign policy aims, the outcome would be disadvantageous. He was not advocating cuts of credit for specific ventures, but suggesting that the economic atmosphere was relevant to the political atmosphere.

We ought to set out our priorities, not so as to give the Soviet Union the impression that we were blackmailing them but to ensure that our position was clearly understood. When the United States had specifically linked economic relations with political developments, the Soviet Union had complained, but the system had worked well in practice. He was not suggesting that a new policy should be announced, but he thought that the relationships should be studied and explored.

/Mr.Moro said that

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Mr. Moro said tht Italy tried to keep its East/West relations in perspective. Eastern deficits with Italy amounted to \$4.7 billion. The Eastern countries faced a relative shortage of currency for the purchase of technology and plant. He thought that we should examine how growth in trade could be reconciled with current levels of indebtedness. We might try to assess the possibility of mulilateral action, perhaps through the International Agencies, in controlling the accumulation of credits by the East. As far as terms were concerned, we should stick to the "Gentleman's Agreement".

Mr. Miki said that he was in favour of East/West cooperation which lent stability to the world economy. The Japanese situation vis a vis the East was not serious. Including China, the total value of exports and imports in 1975 had been \$7.6 billion. This represented only 7% of Japan's volume of trade. The balance of debts owed to Japan was less than a half a billion dollars. Because of the nature of their trade with the Russians and the security offered by Siberian raw materials, they were not concerned about trade with the Soviet Union. Trade with other East European countries had not reached crisis proportions. But he thought it was important to avoid a credit scramble. The Western countries shared and exchanged information - Japan lacked data - and he hoped that it would be possible to eliminate friction and competition between the Western countries on their trade with the East.

/Chancellor Schmidt

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Chancellor Schmidt, in reply to President Giscard, said that it was true that the Federal Republic played a leading role in East/West trade; this arose from the special position of Berlin and the need to pursue détente policies. He would be happy to let the Soviet leadership understand that Germany was well aware of the strategic implications. He then proposed the following amendment to the passage on East/West relations in the draft Communiqué: "The Soviet Union and the East European countries in the last five years have come to play an important role as takers of credit, as buyers of investment goods and technology and foods. It has been to some extent to their advantage that the Western countries have been the major supporters of the world economic system. We expect that in turn the Soviet Union and East European countries will now contribute to the balance sheet and will, in particular, pay their share of aid to the developing countries." He thought that the Foreign Ministers should find an appropriate formula. It would be helpful if the Soviet Union and East European countries could get a public message on these lines.

The Prime Minister said that he was content to examine the questions raised by Chancellor Schmidt. He thought that we should analyse the political and foreign policy consequences of present patterns of East/West trade and current levels of indebtedness. So far, the United Kingdom had acted on the assumption that the Soviet Union would go on bailing out the Eastern Europeans; but maybe that assumption was no longer appropriate. President Ford suggested that the relevant part of the Communiqué should be strengthened.

Dr. Kissinger suggested that they might call attention to the issues raised by Chancellor Schmidt and say that they should have them studied with a view to further discussion. The Prime Minister suggested that this presupposed a further meeting and Dr. Kissinger said that it could be made clear that the "further

/ discussion"

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discussion" would not be in this forum. Mr. Miyazawa thought that OECD might be asked to produce an objective survey.

Mr. Trudeau said that, while he agreed that we were in competition with the Communist world, he thought that we should be tactically cautious over making these kind of points. The l.d.c.s were already beginning to realise, from the way in which they had seen the Soviet Union behave at Nairobi, that they would not get help in that quarter. He thought that the Communiqué might be able to hint, more in sorrow than in anger, at the implications of the Soviet record and indicate that if the West were to make a choice they would prefer to help the l.d.c.s rather than the Soviet Union. However we must recognise that the Eastern bloc had resources which were valuable to the West, such as natural gas. He agreed with Mr. Callaghan's views about the interdependence of East and West. If it was true that the Russians were facing difficulties over financing their military budget, perhaps we ought to be making more progress than we were over SALT and MBFR. A reduction in defence expenditure would be welcome to the l.d.c.s and to many of the industrialised countries, faced with heavy demands for increased capital investment.

President Giscard said that he was concerned about the proposed addition to the Communiqué. The purpose of this meeting, following that at Rambouillet, was to try to express confidence in world economic recovery and the Communiqué should reflect that. It was not designed to deal with specific issues though he was not unhappy about the lively and lucid political discussion which they had had. He thought that this might inspire them each to take new initiatives in other places. But he was not prepared to accept that the East/West issues should be spelled out in the Communiqué.

/ NORTH/SOUTH

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NORTH/SOUTH RELATIONS

Chancellor Schmidt said that the North/South relationship was one of the keys to the development of the world economy. The issues were controversial and there had been a consensus on procedure rather than a consensus on substance. He was very much in doubt whether the developed countries had analysed future problems in sufficient depth. If that were done, he thought that they might find a lesser degree of conflict of interest than had hitherto been the impression. There had been too much argument and not enough analysis. He thought that the disagreement between the developed countries could be overcome. The points which he would like to emphasise were first that the upswing in the world's economy should not be challenged by threats to its fundamental structure. He believed that co-operation was the only lasting basis for progress in the North/South dialogue. Interference in market mechanisms should be kept to a minimum. Maintaining the adaptability and flexibility of the world economy was in everyone's interest. The industrialised countries had to work out a common position which would be credible to the developing world. This involved the transfer of resources, the problem of debt and commodities. On the first it was now generally agreed that the developed countries should increase their contribution. Greater attention needed to be paid to the cumulative burden of debt, but useful progress had been made at Nairobi and would be followed up in the CIEC. On commodities, it was important to try to give substance, in a continuing dialogue in the CIEC, to what had been discussed at Nairobi. That dialogue would have to concentrate on the central requirements of the Group of 77 - that there should be a large number of individual commodity agreements and that there should be a Common Fund. Germany had promised to play an active part in examining the problem of commodities but he still doubted whether the existence of a large number of commodity agreements would be genuinely in the interests of consumers and producers.

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There would be losers as well as winners, and the winners would not necessarily be the developing countries. The dividing line would in fact cut across both groups. He cited the case of copper where the winners would be the United States and the Soviet Union, and the losers many of the developing countries which were not producers of copper but consumers of copper products. He mentioned rubber, where the only producer among the poorest countries was Sri Lanka, and where a commodity agreement would only speed up the substitution of synthetic rubber. In general, India, Sri Lanka and Bangla Desh would find themselves on the losing side. There would be considerable windfall profits for some industrial and some developing countries, on the analogy of the oil price increases. It might be possible to conclude a number of agreements without taking account of the underlying structural consequences, which would create market imbalances and burdens on those least able to bear them. How could this problem be settled? He thought that a number of different concepts which had already been put forward might be combined. The International Resources Bank could be complemented by the idea of financial support aimed at helping "monostructural" countries to diversify their product structure. Germany had drawn up a prototype scheme for the stabilisation of export earnings. A commodity fund would perhaps give stability of price. The alternative would counter-balance fluctuations in export earnings, either by credit or by market grants. The interplay of prices would be unaffected and the negative consequences of interfering in the market would be avoided. It was possible that if there could be an agreement on a few commodities with buffer stocks, they might be linked with each other in a clearing arrangement. The developed countries should explore whether it would not be possible to work out a better way forward than had been agreed at Nairobi. He would like to see a special task force of developed countries established in the next few weeks, possibly in the shadow of the CIEC, though this would need to include other industrialised countries, especially those from the EEC. He thought that there was no reason to fear that in the near future commodity prices would change as abruptly as

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/oil had in 1973

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oil had in 1973, but it was vital to avoid the political and economic consequences of rapid fluctuations. He was not in favour of indexation. The problem remained that the financing of commodity agreements would be a burden either on public budgets or on the purchasers of commodities. To cite an example, in 1972 French imports of the 17 commodities on the Nairobi list had cost \$2 billion. Today they cost double that amount. If one assumed that the expense of financing a commodity scheme through a buffer stock represented about 10 per cent of the value, France would have had to pay an additional \$200 million, and now twice that amount.

Chancellor Schmidt then circulated a table of statistics. He commented that, given the constitutional structure in Germany, the Federal Government's freedom of action over public expenditure was limited. Additional costs arising from commodity schemes of the magnitude indicated could not be financed from the public budget but would have to be financed by the consumer. This burden could only be met by price increases. That posed a serious question. He drew attention to the table on page 2 and pointed to the anomaly that Angola would receive as much as India. Brazil and Malaysia would be major beneficiaries, and no l.d.c. figured high up on the list. On page 6 Australia, South Africa, Canada and New Zealand were major beneficiaries but it was clear that the major cost would fall on the United States, Germany and the other Western industrialised countries.

/ Chancellor Schmidt

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Chancellor Schmidt said that the table showed that on these assumptions the Communist countries would have borne some of the cost, though this would not apply to the U.S.S.R., which would have gained. His proposal was that studies of this kind should be done jointly. He thought that the results, showing the selective distribution of costs and benefits between countries, would be a useful contribution towards establishing a common view among industrialised countries. Dr. Kissinger agreed that it would be useful for countries to be shown how to achieve selective results.

President Giscard said that in his view the object of reforms in the commodity field should be to stabilise prices and not to raise the average level of prices over a period above what was reasonable in relation to costs of production. He pointed out that the figures would be completely different if a different year had been taken, and that the results did not in any way refute the French argument. Herr Schmidt said that stability alone would not help most developing countries.

Signor Rumor said that UNCTAD IV and other meetings had shown that the present policies of the industrial countries were being challenged politically. Over recent years there had been no substantial reduction in the gap between the national incomes of developed and developing countries; indeed in some cases it had got worse and some poor countries had got poorer. The developing countries wanted better prices for commodities as a basis for diversification and industrialisation. He felt that the phase during which their relations with developing countries had been based on financial transfers was at an end and needed to be replaced by broader arrangements. He suggested that the stabilisation of incomes from commodities, investment and the transfer of technology, were all important not only for the developing countries but for the world economy as a whole. It was important to avoid confrontation and he suggested that the developed countries should give a lot of thought collectively to the objects and methods of the Common Fund and to ways of achieving selectivity. He agreed that they should study the figures produced by Chancellor Schmidt and that they should try to achieve better co-ordination between industrial countries.

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/President Ford

President Ford said that the USA's policy objectives were to reduce fluctuations, improve market access for developing countries, and ensure security of supply through adequate investment in new capacity. The main differences of view were about methods. The USA did not want to replace the market and opposed agreements to restrict production or exports. They were not committed to any particular outcome of the consultations about the Common Fund or to taking part in final negotiations about setting one up. They were against the use of the Common Fund to finance buffer stocks. They regretted that the Nairobi Resolution had failed to consider ways of stimulating private investment in developing countries or to study the proposed Investment Resources Bank (IRB). The IRB would not be a direct lender but would reduce the political risks involved in private investment in such countries. He welcomed the support that OECD countries had given to this concept and said that the USA would be putting it forward again in CIEC.

Mr. Callaghan said that Herr Schmidt's figures were graphic but the results depended very much on the single year chosen: 1974 figures might look very different. He thought it was important to get back to first principles. Eighteen months ago, in conversations with the Americans and Canadians, the idea had been to help some very poor countries which were highly dependent on one or two export crops. Fluctuations in prices and earnings from these commodities led to political instability as well as to economic hardship. They were in danger now of losing sight of the realistic though limited objective of avoiding the great swings that had occurred in the past. He thought they should now get back to looking at particular commodities and linking new arrangements to the countries they wanted to help. They should look at ways of stabilising earnings and of the institutions through which this could be done. This would provide a sound basis for progress without endangering their own positions too much.

The meeting concluded at 11.30 a.m.

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