

To The Prime Minister

Navajo To Diggins

Venice 4 June 23rd 80

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DRAFT DECLARATION OF THE VENICE SUMMIT

22nd and 23rd of June

How ...

Henry Owen

I. INTRODUCTION

1. In this, our first meeting of the 1980s, the economic issues that have dominated our thoughts are the price and supply of energy and the implications for inflation and the level of economic activity in our own countries and for the world as a whole. Unless we can deal with the problems of energy, we cannot cope with other problems.

2. Successive large increases in the price of oil, bearing no relation to market conditions and culminating in the recent decisions by the Organisation of Petroleum Exporting Countries (OPEC) at Algiers, have produced the reality of even higher inflation and the imminent threat of severe recession and unemployment in the industrialised countries. At the same time they have undermined and in some cases virtually destroyed the prospects for growth in the developing countries. We believe that these consequences are increasingly coming to be appreciated by some of the oil exporting countries. The fact is that the industrialised countries of the free world, the oil

producing countries, and the non-oil developing countries depend upon each other for the realisation of their potential for economic development and prosperity. Each can overcome the obstacles to that development, but only if all work together, and with the interests of all in mind.

3. In this spirit we have discussed the main problems that confront us in the coming decade. We are confident in the ability of our democratic societies, based on individual freedom and social solidarity, to meet these challenges. There are no quick or easy solutions; sustained efforts are needed to achieve a better future.

II. INFLATION

4. The reduction of inflation is our immediate top priority and will benefit all nations. Inflation retards growth and harms all sectors of our societies. Determined fiscal and monetary restraint is required to break inflationary expectations. Continuing dialogue among the social partners is also needed for this purpose. We must retain effective international coordination to carry out this policy of restraint and also to guard against the threat of growing unemployment and worldwide recession.

5. We are also committed to encouraging investment and innovation, so as to increase productivity, to fostering the movement of resources from declining into expanding sectors so as to provide new job opportunities, and to promoting the most effective use of resources within and among countries. This will require shifting resources from government spending to the private sector and from consumption to investment, and avoiding or carefully limiting actions that shelter particular industries or sectors from the rigors of adjustment. Measures of this kind may be economically and politically difficult in the short term, but they are essential to sustained non-inflationary growth and to increasing employment which is our major goal.

6. In shaping economic policy, we need a better understanding of the long-term effects of global population growth, industrial expansion and economic development generally. A study of trends in these areas is in hand, and our representatives will keep these matters under review.

III. E N E R G Y

7. We must break the existing link between economic growth and consumption of oil, and we mean to do so in this decade. This strategy requires conserving oil and substantially increasing production and use of alternative energy sources. To this end, maximum reliance should be placed on the price mechanism, and domestic prices for oil should reflect representative world prices. Market forces should be supplemented, where appropriate, by effective fiscal incentives and administrative measures. Energy investment will contribute substantially to economic growth and employment.

8. We welcome the recent decisions of the European Community (EC), the International Energy Agency (IEA) and the Organisation for Economic Cooperation and Development (OECD) regarding the need for long term structural changes to reduce oil consumption, continuing procedures to monitor progress, the possible use of oil ceilings to deal with tight market conditions, and coordination of stock policies to mitigate the effect of market disruption. We note that the member countries of the IEA have agreed that their energy policies should result in their collective 1985 net

oil imports being substantially less than their existing 1985 group objective, and that they will quantify the reduction as part of their continuing monitoring efforts. The potential for reduction has been estimated by the IEA Secretariat, given existing uncertainties, at around 4 million barrels a day (MBD).

9. To conserve oil in our countries:

- We are agreed that new base-load, oil-fired generating capacity should be constructed, save in exceptional circumstances, and that the conversion of oil-fired capacity to other fuels should be accelerated.

- We will increase efforts, including fiscal incentives where necessary, to accelerate the substitution of oil in industry.

- We will encourage oil-saving investments in residential and commercial buildings, where necessary by financial incentives and by establishing insulation standards. We look to the public sector to set an example.

- In transportation, our objective is the introduction of increasingly fuel efficient vehicles. The demand of consumers and competition among manufacturers

are already leading in this direction. We will accelerate this progress, where appropriate, by arrangements or standards for improved automobile fuel efficiency, by gasoline pricing and taxation decisions, by research and development, and by making public transport more attractive.

10. We must rely on fuels other than oil to meet the energy needs of future economic growth. This will require early, resolute, and wide-ranging actions. Our potential to increase the supply and use of energy sources other than oil over the next ten years is estimated at the equivalent of 15-20 MBD of oil. We intend to make a coordinated and vigorous effort to realize this potential. To this end, we will seek a large increase in the use of coal and enhanced use of nuclear power in the medium term, and a substantial increase in production of synthetic fuels, in solar energy and other sources of renewable energy over the longer term.

11. We shall encourage the exploration and development of our indigenous hydrocarbon resources in order to secure

maximum production on a long term basis.

12. Together we intend to double coal production and use by early 1990. We will encourage long term commitments by coal producers and consumers. It will be necessary to improve infrastructures in both exporting and importing countries, as far as is economically justified, to ensure the required supply and use of coal. We look forward to the recommendations of the International Coal Industry Advisory Board. They will be considered promptly. We are conscious of the environmental risks associated with increased coal production and combustion. We will do everything in our power to ensure that increased use of fossil fuels, especially coal, does not damage the environment.

13. We underline the vital contribution of nuclear power to a more secure energy supply. The role of nuclear energy has to be increased if world energy needs are to be met. We shall therefore have to expand our nuclear generating capacity. We will continue to give the highest priority to ensuring the health and safety of the public and to perfecting methods for dealing with spent fuels and disposal of nuclear

waste. We reaffirm the importance of ensuring the reliable supply of nuclear fuel and minimising the risk of nuclear proliferation.

14. The studies made by the International Nuclear Fuel Cycle Evaluation Group, launched at the London Summit in 1977, are a significant contribution to the use of nuclear energy. We welcome their findings with respect to: increasing predictable supplies; the most effective utilisation of uranium sources, including the development of advanced technologies; and the minimisation of proliferation risks, including support of International Atomic Energy Agency (IAEA) safeguards. We urge all countries to take these findings into account when developing policies and programmes for the peaceful use of nuclear energy.

15. We will actively support the recommendations of the International Energy Technology Group, proposed at the Tokyo Summit last year, for bringing new energy technologies into commercial use at the earliest feasible time. As far as national programmes are concerned, we will by mid-1981 adopt a two-phased approach; first, listing the numbers and types of commercial scale plants to be constructed in each

of our countries by the mid-1980s, and, second, indicating quantitative projections for expanding production by 1990, 1995 and 2000, as a basis for future actions. As far as international programmes are concerned, we will join others in creating an international team to promote collaboration among interested nations on specific projects.

16. [A high level group of our representatives will review progress made in these fields by each of us].

[We have charged our Personal Representatives to make arrangements for reviewing progress made in these fields by each of us].

17. Our comprehensive energy strategy is designed to meet the requirements of the coming decade. We are convinced that it can reduce the demand for energy, particularly oil, without hampering economic growth. By carrying out this strategy we expect that, over the coming decade, the ratio between increases in collective energy consumption and economic growth of our countries will be reduced to about 0.6, that the share of oil in our total energy demand will be reduced from 53 per cent now to about 40 per cent by 1990, and that our collective consumption of oil in 1990 will be significantly below present levels so as to permit a balance between supply and demand at tolerable prices.

18. We continue to believe that international cooperation in energy is essential. All countries have a vital interest in a stable equilibrium between energy supply and demand. We would welcome a constructive dialogue on energy and related issues between energy producers and consumers in order to improve the coherence of their policies.

IV. RELATIONS WITH DEVELOPING COUNTRIES

19. We are deeply concerned about the impact of oil price increases on developing countries that have to import oil. The increase in oil prices in the last two years has more than doubled the oil bill of these countries, which now amounts to over \$ 50 billion. This will drive them into ever increasing indebtedness, and put at risk the whole basis of their economic growth and social progress, unless something can be done to help them. The industrialised countries cannot carry this responsibility on their own: it must be shared with the oil-exporting countries and the Communist countries and all countries which have the means to share it, especially the oil-exporting countries and.

20. We approach in a positive spirit the prospect of global negotiations in the framework of the United Nations

and the formulation of a new International Development Strategy. In particular, our object is to cooperate with the developing countries in energy conservation and development, expansion of exports, improve access to our markets, enhancement of human skills, and the tackling of underlying food and population problems.

21. A major international effort to help these countries increase their energy production is required. We believe that this view is gaining ground among oil-exporting countries. We ask the World Bank to examine the adequacy of the resources and the mechanisms now in place for the exploration, development and production of conventional and renewable energy sources in oil-importing developing countries, to consider means, including the possibility of establishing a new affiliate or facility by which it might improve and increase its lending programmes for energy assistance, and to explore its findings with both oil-exporting and industrial countries.

22. We are deeply conscious that extreme poverty and chronic malnutrition afflict hundreds of millions of people of developing countries. The first requirement in these

countries is to improve their ability to feed themselves and reduce their dependence on food imports. We are ready to join with them and the International Agencies concerned in their comprehensive long term strategies to increase food production, and to help improve national as well as international research services. We will support and, where appropriate, supplement initiatives of the World Bank and of the Food and Agricultural Organisation (FAO) and to improve grain storage and food handling facilities. We underline the importance of wider membership of the new Food Aid Convention so as to secure at least 10 million tons of food aid annually and of an equitable replenishment of the International Fund for agricultural development.

23. High priority should be given to efforts to cope with population growth and to existing United Nations and other programmes for supporting these efforts.

24. We strongly support the general capital increase of the World Bank, increases in the funding of the regional development banks, and the sixth replenishment of the International Development Association. We would welcome an increase in the rate of lending of these institutions

within the limits of their present replenishments, as needed to fulfill the programmes described above. It is essential that all members, especially the major donors, provide their full contributions on the agreed schedule.

25. We welcome the report of the Brandt Commission. We shall carefully consider its recommendations. We believe a Summit, attended by Heads of State and Government of developed and developing countries, as suggested in that report, could be useful under appropriate circumstances and at a suitable time .

V. MONETARY PROBLEMS

26. The situation created by large oil-generated payments imbalances, in particular those of oil-importing developing countries, requires a combination of determined actions by all countries to promote external adjustment and effective mechanisms for balance of payments financing. We look to the international capital market to continue to play the primary role in rechanneling the substantial oil surplus funds on the basis of sound lending standards. We support the work in progress by our monetary authorities and the

Bank for International Settlements designed to improve the supervision and security of the international banking system. The private banks could usefully supplement these efforts.

27. Private lending will need to be supplemented by an expanded role for international institutions, especially the International Monetary Fund (IMF). We are committed to implementing the agreed increase in the IMF quotas, and to supporting appropriate borrowing by the Fund, if needed to meet financing requirements of its members. We encourage the IMF to seek ways in which it could, within its guidelines on conditionality, make it more attractive for countries with financing problems to use its resources. In particular, we support the IMF's examination of possible ways to reduce charges on credits to low-income developing countries. The IMF should work closely with the World Bank in responding to these problems. We welcome the Bank's innovative lending scheme for structural adjustment. We urge oil-exporting countries to increase their direct lending to countries with financial problems thus reducing the strain on other recycling mechanisms.

28. We reaffirm our commitment to stability in the foreign exchange markets. We note that the European Monetary System (EMS) has contributed to this end. We will continue close cooperation in exchange market policies so as to avoid disorderly exchange rate fluctuations. We will also cooperate with the IMF to achieve more effective surveillance. We support continuing examination by the IMF of arrangements to provide for a more balanced evolution of the world reserve system.

VI. T R A D E

29. We are resolved further to strengthen the open world trading system. We will resist pressures for protectionist actions, which can only be self-defeating and aggravate inflation.

30. We endorse the positive conclusion of the multilateral trade negotiations, and commit ourselves to early and effective implementation. We welcome the participation of some of our developing partners in the new non-tariff codes and call upon other to participate. We also call for the full participation of as many countries as possible in strengthening the system of the General Agreement

on Tariffs and Trade (GATT). We urge the more advanced of our developing partners gradually to open their markets over the coming decade.

31. We reaffirm our determination to avoid a harmful export credit race. To this end we shall work with the other participants to strengthen the International Arrangement on Export Credits, with a view to reaching a mutually acceptable solution covering all aspects of the Arrangement by 1 December 1980. In particular, we shall seek to bring its terms closer to current market conditions and to reduce distortions in export competition, recognising the differentiated treatment of developing countries in the Arrangement.

32. As a further step in strengthening the international trading system, we commit our governments to work for one more year in the United Nations toward an agreement to prohibit illicit payments to foreign government officials in international business transactions. If that effort falters, we will seek to conclude an agreement among our countries, but open to all, with the same objective .

VII. CONCLUSIONS

33. The economic message from this Venice Summit is clear. The key to success in resolving the major economic challenges which the world faces is to achieve and maintain a balance between energy supply and demand at reasonable levels and at tolerable prices. Those among us whose countries are members of the European Community intend to make their efforts within its framework. The stability of the world economy, on which the prosperity of every individual country relies, depends upon all of the countries concerned - the industrialised countries, the oil exporting countries and the non-oil developing countries - recognising their mutual needs and accepting their mutual responsibilities. In this spirit we, who represent seven large industrialised countries of the free world, are ready to tackle our own problems with determination and to work with others to meet the challenges of the coming decade, to our own advantage and to the benefit of the whole world.