

NOTE OF THE THIRD SESSION OF THE DOWNING STREET SUMMIT CONFERENCE AT
10 DOWNING STREET ON SUNDAY 8 MAY 1977 AT 1045

LIST OF PARTICIPANTS

United Kingdom (Chairman)

Prime Minister

Chancellor of the Exchequer

Foreign and Commonwealth Secretary

Canada

The Rt. Hon. Pierre Elliott
Trudeau, PC, MP.
Prime Minister

The Hon. Donald S. Macdonald PC, MP.
Minister of Finance

The Hon. Donald C. Jamieson PC, MP.
Secretary of State for External
Affairs

Italy

H.E. On. Giulio Andreotti
Prime Minister

H.E. On. Arnaldo Forlani
Minister of Foreign Affairs

H.E. Senator Gaetano Stammati
Minister for the Treasury

France

Monsieur Valery Giscard d'Estaing
President of the French Republic

H.E. Monsieur Louis de Guiringaud
Minister of Foreign Affairs

H.E. Monsieur Robert Boulin
Minister-Delegate for Finance
and Economy

Japan

H.E. Mr. Tadeo Fukuda
Prime Minister

H.E. Mr. Ichiro Hatoyama
Minister of Foreign Affairs

H.E. Mr. Hideo Bo
Minister for Finance

Germany

H.E. Herr Helmut Schmidt
Federal Chancellor

H.E. Herr Hans-Dietrich Genscher
Minister of Foreign Affairs

H.E. Dr. Hans Apel
Minister of Finance

United States of America

Mr. Jimmy Carter
President of the United States

The Hon. Cyrus R. Vance
Secretary of State

The Hon. Michael Blumenthal
Secretary of the Treasury

The Hon. Robert Strauss
President Carter's Special
Trade Representative
(for part of the Session)

EEC Commission

The Rt. Hon. Roy Jenkins

CIEC

After introducing the President of the Commission and Monsieur Boulin, the Prime Minister invited President Giscard to open the discussion on the CIEC.

President Giscard said that he regarded this as one of the most important items on the agenda, both because of its intrinsic importance and because the Summit would be watched closely by the developing countries, who were suspicious of it. This was a subject on which there was a Community mandate, and it was appropriate that the President of the Commission should be present for this discussion.

The North/South dialogue had both an economic and a political character. It had first been broached in 1974, when the choice lay between a strategy of confrontation and a strategy of co-operation. Since the 1973 oil crisis, the oil producers, and in particular the more moderate ones like Saudi Arabia and the United Arab Emirates, had adopted a more reasonable posture. He had himself had recent discussions with Prince Fahd (who was shortly to visit Washington for talks with President Carter). He believed that it was important to encourage the more moderate oil producers, since if the North/South dialogue failed the more radical oil producers would rapidly gain the upper hand. The outcome of CIEC, and the settlement of the Arab/Israeli conflict, would be of great significance and could have a direct effect on oil and commodity prices, and thereby on all our economies.

President Giscard recalled the meeting of the ten co-Chairmen on 26 April to prepare for the Ministerial conference which it had been agreed in principle should be held from 30 May to 1 June. The discussion so far had revealed both successes, in the sense that there were indications that it was still possible to reach agreement; and failures, in the sense that Perez Guerrero's report had revealed the extent of disappointment and anxiety among the developing countries. The European Council meeting in Rome at the end of March had recorded considerable progress, however, in reaching agreement on several controversial points.

He believed that two decisions were now needed on Raw Materials and on Development Aid. On the first, he did not think that any agreement would be possible without agreeing in principle to establish a Common Fund. The European Council had now reached agreement (with some reservations, which he entirely understood, from the Germans), and he hoped that this meeting could record similar agreement in principle with the United States and Japan. The details of financing would, of course, still remain to be settled. It was important to have an expression of political will to reach certain commodity agreements, and he hoped that the criterion to be adopted would be to choose those commodities of most interest to the poorest developing countries. He also hoped that the meeting could accept the principle of a periodic review of reference prices. He believed it had been right to reject indexation, but the rate of world inflation made it only right to agree to a review.

On Development Aid, President Giscard recalled that the central demand of the developing countries had been an automatic relief of the debt burden. It had also been right to reject this, and to put forward instead proposals for special aid designed to improve the situation on a case by case basis. This required not only better procedures, but also exceptional and additional aid for those with an exceptional debt burden. The figure of \$1 billion had been agreed, to be shared between the EEC, the United States and others, and he hoped that the meeting would be able to confirm this agreement today. It appeared that the United States would prefer to channel this aid bilaterally rather than multilaterally, and he was ready to discuss this. Speaking for himself, he had an open mind on this question. He would only say that he regarded the figure of \$1 billion as a low one, when compared with the size of the oil deficit of \$45 billion. Even if the \$1 billion was regarded as additional expenditure, it was still not very generous.

President Giscard asked what we should try to obtain in return from the developing countries? He hoped that there would be periodic consultation on energy questions, such as oil prices, in the CIEC forum, and that we would also be able to secure principles to protect our investment in the developing

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countries. Apart from these main points for decision in principle, we also needed to decide whether to say anything following this meeting about the inadequacy of development aid. The poorer countries were getting poorer, and he did not believe that the level of aid, at 0.7% of GDP, was an acceptable level.

President Giscard said that he would like to put forward a proposal of a political nature. The Socialist countries had made virtually no contribution to development aid, other than by their very small contributions through United Nations institutions. IDA and the European Development Fund were exclusively financed by the western developing countries.

the Third World that our aid was inadequate. He hoped to report later to the separate question of a Special African Fund.

The Prime Minister thanked President Giscard for his introduction, and pointed out that it was not possible or appropriate to take decisions about the CEEC at this meeting. We must not appear to be functioning as the Rich Club. Although we could agree among ourselves on our common attitude in G2, President Giscard had reminded the meeting of the confrontational atmosphere which had existed in 1974 and 1975, and there was a risk that we would face similar confrontation in future. He hoped that we could concentrate on 4 points: a common fund; debt relief; a periodic review of reference prices; and East European aid (although, in this context, he pointed out that the West had often had good commercial reasons for extending aid to the Third World).

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President Giscard said that he was very willing in principle to participate constructively in a Special Fund. This was worth-while, and he agreed that an effort should be made to

It was time to take a stand on the principle that the Socialist countries must contribute.

Turning to Africa, President Giscard pointed out that the West had financed development aid in Africa with very few political results. The Soviet Union, on the other hand, had been financing military aid with very considerable results, and it was time to bring pressure to bear on the Soviet Union, if only to protect ourselves from the constant accusations by the Third World that our aid was inadequate. He hoped to revert later to the separate question of a Special African Fund.

The Prime Minister thanked President Giscard for his introduction, and pointed out that it was not possible or appropriate to take decisions about the CIEC at this meeting. We must not appear to be functioning as the Rich Club, although we could agree among ourselves on our common attitude in G8. President Giscard had reminded the meeting of the confrontational atmosphere which had existed in 1974 and 1875, and there was a risk that we would face similar confrontation in future. He hoped that we could concentrate on 4 points: a common fund; debt relief; a periodic review of reference prices; and East European aid (although, in this context, he pointed out that the West had often had good commercial reasons for extending aid to the Third World).

President Carter said that he was very willing in principle to participate constructively in a Common Fund. This was worthwhile, and he agreed that an effort should be made to

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stabilise export earnings. On the other hand, the structure of United States Government made it difficult for them to contribute very much through multilateral groups. The United States Administration was determined to increase the level of their overseas aid by at least double by 1982. Their aid had totalled \$8½ billion last year (much of it bilateral, and including military aid), but he was ready to give more through the established lending institutions.

He also agreed on the idea that the Socialist countries should be invited to contribute more, though he hoped that this invitation would be conveyed in a non-polemical way. Perhaps President Giscard's forthcoming meeting with Mr. Brezhnev would provide a good opportunity for this? He also thought that we should welcome increased participation by the OPEC countries, who felt excluded at present, and he hoped that encouragement would be given to this idea.

The Prime Minister said that he knew of President Carter's difficulties about multilateral aid. What was needed was some Special Action to give the impression that something was being done in the CIEC. President Carter said that the increase in the United States level of aid this year was already significant, as was the intention to double the level by 1982. But any further action had to be discussed with Congress. Mr. Vance said that he thought it would be possible for the Americans to undertake to participate in a Common Fund, but on a bilateral basis.

Chancellor Schmidt said that the discussion so far had been very pragmatic. But we must not lose sight of one important principle. Although the level of German aid was not as high as that of France, it was better than many others, and he had no guilty conscience about it. It was a mistake that people went around "extolling their bad consciences" as they had at Nairobi. We needed to bear in mind, as President Giscard had said, that we were doing considerably more than Eastern Europe.

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He agreed that we needed to commit ourselves to do more in Development Aid, but in such a way as not to jeopardise the functioning of the world's economic and financial system as a whole. We must remember that oil prices and commodity prices were part of the current structural crisis. He was speaking not as a liberal, but as a social democrat; nevertheless, Herr Genscher fully shared his views on this.

On the question of aid from the socialist countries, it was worth noting that the total official Development Aid in 1975 had been \$17 billion, of which 80% was from OECD countries and only 5% from the COMECON countries. Total COMECON aid that year had represented only half the aid given by the Federal Republic of Germany alone.

It was a mistake to let the Communists get away with this publicly, and he thought that a sentence should be included in the communique about the need for them to take up their responsibilities. It was certainly possible for East Germany and the Soviet Union to do so. By extolling their bad consciences, representatives of the western democracies, including Japan, had expressed their readiness to make sacrifices, although no agreement had been reached on the amount. Now was the time to ask others to do so. Before leaving for this meeting, he had told the German people in a broadcast that they needed to make sacrifices; but in return, he believed that we must try to achieve some stability and guarantees for the future, eg in terms of security for investment. Otherwise, the levels of private investment would decrease even further.

The OPEC countries must shoulder some responsibility, and he agreed that the Saudis had been a helpful and moderating influence, but we must try to get some assurance of supply from the oil producers.

/If we could

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If we could get some satisfaction from Eastern Europe, OPEC and the developing countries on these points, we should be ready to make pledges and sacrifices in return. He had produced some figures about commodities in Puerto Rico, and still thought that if commodity agreements were concluded for some 25 different commodities, there was a danger of mis-allocation and of increasing the income of those, such as the Russians, the Canadians or the Australians, who did not need it.

Chancellor Schmidt recalled the letter which he had sent to all participants about the stabilisation of export earnings, and thought that some agreements might be needed on tropical products, in addition to a Stabex scheme. He was not speaking in terms of German interest alone, but for the continuity of the world's economic system. He was not suggesting that we should be stubborn, or insist particularly on one or other of the ideas which he had mentioned, but he did wish to express deep concern about cheap gestures, which would not in practice help the world's economy.

He did not believe that we had yet seen the peak of the structural crisis; other commodity crises, eg over uranium, were still to come. Most of our economies, particularly in Europe, would not be able to stand the further strain. Our peoples would no longer accept that these problems were insurmountable and would vote their Governments out of office, to turn to others such as the Communists. We had to help the developing countries, rather than please them. The consequences of our actions needed to be considered, and he thought that if commodity prices were fixed there was a danger of repeating the situation in the EEC Common Agricultural Policy, with all the consequences of mountains, surpluses, buffer stocks, etc.

In conclusion, Chancellor Schmidt said that he was ready to go along with any decision, but was deeply concerned that we should not make mistakes merely in order to give temporary pleasure to the developing countries.

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/Signor Andreotti

Signor Andreotti agreed that we needed to consider both the humanitarian aspects and our own interests. On raw materials, a crucial need would be met if we could begin to regularise the commodity markets or find some stabilisation of export earnings. He agreed with Chancellor Schmidt that the problems should not be solved by producing a type of CAP, or by compensatory agreements. But it was important to rebalance the "tactical plane" of the commodity markets, and to move from general statements of intent to practical steps.

On Development Aid, he thought that Governments must try to work in multilateral fora, as they had in the EEC. When the United States Government had set up Point Four, they had acquired a moral leadership in the developing world. If the industrialised countries could coordinate their Development Aid and give it both a technical and political character, this would be a very valuable step, and might enable other steps, eg on the transfer of technology, to go forward.

He also agreed with President Giscard that public opinion should be made to realise how little help was being given by the socialist countries. We should point to the fact that those who were not now participating in aid programmes should undertake their responsibilities. He also thought it would be useful to ensure that aid was given both according to the relative poverty of the recipient and be conditional on the effectiveness of development programmes. The conditionality of the IMF might be an example.

/Mr. Fukuda

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Mr. Fukuda referred to his remarks yesterday about structural change. There were many facets to this, including the development of North/South relationships and the realisation that energy was now finite. This was the time to conduct a sweeping review of the situation, and to make the developing countries realise that they had a part in the economic health of the world. This emphasised the importance of the CIEC, and the need to ensure its success.

Many proposals had been put forward in the CIEC, but he hoped that this meeting could reach a common conclusion on the general orientation or direction of our approach to such questions as the increasing debt burden. He also wished to draw attention to GATT and the Tokyo Round, and thought that some attention should be given in that forum to commodities.

Some optimism had been expressed yesterday on the chances of bringing the world's economy back to health. His Government wished to adopt a positive attitude on this, and he believed that a revival of the world economy would be of direct benefit to the Third World, since it would encourage their exports.

Mr. Jenkins agreed that CIEC should not be regarded as a one-way charitable organisation. It was a two-way process and the developing countries should be involved in the prosperity of the whole world. It was also true that an increase in the purchasing power of the developing world could help the economies of the industrialised countries.

/It was important

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It was important to make the CIEC a success, and he hoped that we could do so without harming ourselves. At least the G19 seemed to want a successful outcome to the Conference. The first essential was to establish a united front in the G8, and positions were already fairly close. While it was clearly not right to announce the G8 position here, he hoped that a common position could nevertheless be reached on the following points.

1. Special Action. The EEC had already agreed to a contribution of 37.5 per cent to the \$1 billion Special Action Fund, and it was important that the United States should also be ready to contribute a similar amount. The developing countries attached importance to multilateralism in this context and although he recognised the difficulties which this posed for the United States Administration he nevertheless hoped that the Americans could adopt a similar position to the EEC, in substance if not in form. It was important that this contribution should be additional and not project-tied.
2. Official Development Aid. The G8 had already discussed some points on this, and he hoped that here also it would be possible to get American agreement.
3. A Common Fund. There had been some movement on this at the European Council Meeting in Rome and some further progress this morning. This would not cover a vast range of commodities and it was right to approach it with caution; but it had great symbolic importance.

/4. Stabilisation**CONFIDENTIAL**

4. Stabilisation of Export Earnings. No-one expected agreement to be reached on a Stabex Scheme at this meeting, or even at the CIEC. But there was a need to reach agreement in Paris on a study of a Stabex Scheme, perhaps to be undertaken by the Development Committee of the IMF and the World Bank,

The third and fourth points supplemented each other and should not be regarded as additional to each other.

Mr. Fukuda referred to a meeting which he had had this week with the Secretary General of UNCTAD to discuss proposals for a Common Fund. The Secretary General had told him that this was not, in his view, such a massive or controversial scheme, and he thought that this subject was now being treated on a more pragmatic plane.

Mr. Macdonald said that he wished to make three points. The first related to politics; the second to aid and financing; and the third to commodities.

On the first, the failure of the CIEC could have a direct effect on oil prices, and indirect political consequences. Reference had been made to the Saudis, and he thought it important to ensure that a conference in which the Saudis had played a significant role should succeed. On the question of East European aid, we had always kept off this subject because it was liable to stimulate attacks on the West for being imperialists, and he wondered whether it was worth it.

On the second point, considerable progress had been achieved in establishing the Witteveen facility. Our peoples were going to have to accept some shift in financial resources from the developed countries (including the oil producers) to the developing countries.

On the third point, Canada, as a major producer, was not seeking anything like the CAP. They were ready to compete on commercial terms, and to participate in a Common Fund. He thought that the best forum for discussing this was probably UNCTAD. Chancellor Schmidt asked whether he was aware of the majority in UNCTAD, and the standard of intellectual competence in it? Mr. Macdonald said that this did not matter. The important point was to come to terms with the Third World, and UNCTAD was a forum in which the Third World had confidence.

President Giscard said that we should not aim to reach decisions at this meeting, but it was important to express the view of the Seven that we expected a positive outcome for CIEC. The communiqué should also include a vigorous passage inviting the Socialist countries to participate in financing aid to the Third World.

President Carter said that he felt some concern about a possible misunderstanding on the establishment of additional aid on a multilateral basis. He had great confidence in the IMF and the World Bank; it would be very hard for him to sell in the United States the idea of a 37.5 per contribution on a different basis. Mr. Jenkins had mentioned the idea of an analysis of the development aid situation, and he agreed that it would be very valuable if the IMF and the World Bank could spend perhaps a year conducting a study on this subject. He thought that the developing countries would trust the IMF and the World Bank to do this, and it would certainly help him to get increased support in Congress and from public opinion.

After mentioning that, as the new President, he found the vast array of different international organisations very confusing, President Carter said that he did not understand why the Socialist countries did not belong to the World Bank. He wished they did, and he had heard that some East European officials had admitted their regret that they had not joined in the 1940s. This was not perhaps something for him to advance himself; perhaps President Giscard could raise it with Mr. Brezhnev? But this could be one way of bringing the East Europeans into a future aid programme, and it might perhaps be possible to assist them with the aid analysis to which he had referred.

/President Carter

President Carter agreed with Chancellor Schmidt that we should try to get the ldc's to agree not to confiscate property without adequate compensation. He was very eager to sell all these ideas in the United States, but thought that we needed a comprehensive analysis first.

Mr. Jamieson said that he still had reservations about the efficacy of some of our efforts. Was Mr. Jenkins suggesting that the G8 did not need to agree on the whole package? There was presumably a minimal position, but there might be areas where some could act, while others could not.

Mr. Jenkins said that the Special Action depended on a balance of contributions in order to make up a total of \$1 billion. The EEC contribution of 37.5% was in fact slightly above the correct proportionate share on a world-wide basis. Mr. Jamieson said that if one country took individual action, e.g. on debt relief, would it matter? The Prime Minister said that this was partly a presentational point, and that the important thing was to achieve some positive results. Some of us might have funds that did not need reference to Congress or Parliament and, as he understood it, Mr. Jenkins was after something both positive and practical.

President Giscard said that he thought the Special Action must be highlighted as an additional effort, and not just part of our aid programmes, but he was not suggesting that we should consider today how these funds could be met. Mr. Vance said that we should say that we all agreed in principle on the size and objectives of the Special Action Fund. The fact that the Americans were providing their funds bilaterally rather than in a common pool should not lead to a result inconsistent with the principle which they were trying to achieve.

The Prime Minister said that the British position was that a certain total was set aside for the aid programme, but that some of it was not allocated. In that sense, any unallocated money from the programme would be additional expenditure.

Mr. Jenkins said that the money should be not only additional but provided quickly, since it was important to shift the argument away from the idea of a Debt Moratorium.

After some further discussion about budgetary procedures, President Giscard said that \$1 billion was not very much; if we told the developing world that this was something which we would otherwise have spent elsewhere, there would be a storm at the end of the CIEC. The Chancellor of the Exchequer said that we had been required by the IMF to reduce our public expenditure in real terms, but were always being asked, on the other hand, to spend more on defence or aid. We therefore kept a reserve which could be made available, as in this case, for additional funds. Mr. Fukuda said that this was a special measure, and he thought that it should be considered as an exceptional and urgent case.

Mr. Trudeau hoped that, as democracies, we could be motivated in this matter by a spirit of generosity. Both President Giscard and Mr. Macdonald had rightly made the point that if we did not find this money willingly, it would be taken from us unwillingly through rising oil prices.

/The Prime Minister

The Prime Minister said that he accepted that argument. If the CIEC ran into the sand, all of us would suffer. Chancellor Schmidt said that he thought it important that it should not be concealed from people that this was an additional sacrifice.

Youth Unemployment

The Prime Minister said that he would like to refer briefly to a point which Signor Andreotti had made yesterday about the need for an exchange of information on youth unemployment. There were a number of schemes in existence for tackling this problem, but he thought it would be useful if we could agree on an exchange of ideas, for example, in an international conference. It would be for consideration how such a conference might be organised. It might, for example, be possible for the OECD to arrange it, and he believed that a suggestion for an OECD conference had already been made to President Carter. Chancellor Schmidt said that he thought it important not to arouse too much publicity beforehand, or to provoke expectations which a conference might not fulfil. Dr. Apel agreed, and did not think that a special conference on the subject was a good idea. The Prime Minister suggested that the form of words at present included in the draft communique should remain in for further discussion this afternoon. He agreed on the need for balanced wording.

Trade (At this point Mr. Strauss joined the meeting and Mr. Vance left)

The Prime Minister invited Mr. Fukuda to open the discussion on this subject. Mr. Fukuda said that he was well aware that any shrinkage in world trade would have an impact both on the level of unemployment and on business conditions. It was important to achieve trade equilibrium through expansion rather than contraction. The participants at this meeting should remind themselves of the OECD Trade Pledge and should also seek to move forward on the Tokyo Round.

/Mr. Jenkins

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Mr. Jenkins said that, on the Multilateral Trade Negotiations (MTNs), there had been an attempt to rebuild the negotiations in 1971, but that even after they had been launched in 1973 there had still been a delay pending the passage of the United States Trade Act in 1975. More recently, there had been a period of hesitation during the United States Presidential elections, but the EEC still believed that it was important to achieve a successful outcome of the MTNs if only to prevent the spread of protectionism.

It was not right to set deadlines for the MTNs; a successful outcome was more important. But he hoped that the rest of 1977 would see more rapid progress achieved. The Community already had a relatively low, and fairly homogenous external tariff. Over 90% of our tariffs were bound under GATT, considerably more than applied in the case of some of our partners. In agriculture, the Community's markets were already open, as was shown by the \$5 billion deficit with the United States last year. Nevertheless, there was a need for a satisfactory reciprocal balance at the end of the day, and he was broadly content with the lines taken in the communique under discussion.

Mr. Fukuda said that the Tokyo Round was concerned with a number of inseparably linked questions including tariffs, non-tariff barriers to trade, and agricultural produce. On the first, many proposals and formulae had been put down. There was a need to reach an agreed formula on tariff reduction, in order both to simplify later technical work and to provide an impetus to the Tokyo Round. He hoped that a target date could be set for August or September this year to agree on a suitable formula.

The
/non-tariff barrier problem could be dealt with concurrently.
So far as agricultural produce was concerned, he thought that

/the negotiations

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the negotiations should be speeded up. Otherwise, we would be dragging our feet indefinitely. The Tokyo Round was important for itself, and as a means of demonstrating that we wished to avoid a resurgence of protectionism, and he hoped that the communiqué would reflect this.

Signor Stammati said that Italy had two reasons for favouring international trade expansion and the abolition of trade restrictions. Italy had always favoured free trade, and he referred to some recent steps taken to remove protectionist measures in Italy. Secondly, the Italians were anxious to integrate into the world trade system, and there was a need for a joint effort by all of us to alleviate the damage caused in certain sectors by over-production. Protectionist measures presented the greatest danger for international trade, and he hoped that the trade pledge would be renewed at the end of June. He agreed with Mr. Fukuda on the special importance of intensifying the Tokyo Round, and of getting some balanced results this year.

On the question of East/West trade, Signor Stammati referred to the Puerto Rico Declaration on the need to develop trade with the East on a reciprocal basis. President Carter had referred to the idea of inviting the East Europeans to join the IMF, and he agreed that this was very desirable. He mentioned that the Soviet Union had in fact signed the Bretton Woods Agreement.

The Prime Minister said that he wished at this point to refer again to the talk which he had had this week with the International Trade Union delegation. For them, what mattered was that there was a direct relationship between the reduction of tariff barriers and employment. Chancellor Schmidt agreed that this was true in the short term; but in the longer term a few protectionist measures could only have adverse effects on unemployment. Everyone present had spoken up for free world trade,

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but Mr. Callaghan had been more honest than most in pointing out the effects of unemployment. The fact was that everyone round the table had agreed to, or acquiesced in, protectionist measures, such as import deposits. None of them was free from sin. He welcomed the clear declarations made by the Japanese and Italian representatives in favour of free trade, and thought that the communiqué should be more articulate about the need to avoid the pitfalls of protectionism. He also wondered why the communiqué contained no reference to the Trade Pledge.

The draft, in its present form, called for progress on "a mutually acceptable approach to agriculture that would achieve increased expansion and stabilisation of trade, and greater assurance of world food supplies, including, as a priority matter, an arrangement for increased international co-operation on grains involving an agreed approach to grain stocks". He did not know what this meant, but it looked like heaven on earth. Was there anything substantive behind it? President Giscard said that he thought this type of detailed discussion was getting away from the real purpose of the meeting. The draft communiqué was 10 pages long, including 2 pages on the CIEC. He thought that the whole communiqué should be 4 or 5 pages at the most. What was needed was a declaration of determination to fight against the danger of protectionism, which in turn was closely linked to the structural crisis in which we found ourselves. In the MTNs we must try to achieve a balanced and symmetrical situation in a free trade system. This involved both the harmonisation of tariffs and comparable access. If we were to talk 19th century free trade language, the trade unions and the unemployed would simply not understand it. We must show that we were not only against protectionism, but also aware of the structural problems involved in free international trade. All of us held high moral views on the question of surpluses, but we should also accept the need not to create deficits.

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President Carter agreed that a brief declaration was required emphasising very strongly: first, that an increase in trade would help international prosperity; secondly, denouncing protectionism in strong terms; and thirdly, calling for expedition in completing the Tokyo Round (on which he acknowledged that, whereas the American trade unions had been the foremost spokesmen of free trade a few years ago, this was no longer the case); fourthly, he had no objection to a short passage on the Trade Pledge.

Mr. Blumenthal said that he assumed that the participants would want to give some impetus to the MTNs apart from merely expressing opposition to protectionism. The idea of mentioning target dates could be helpful. After some further discussion about the wording of the draft communiqué, and the reference to a Grains Agreement, Mr. Macdonald said that most of the difficulties in the Geneva negotiations were related to worries about unemployment. In considering our approaches to the MTNs, we must take account both of unemployment and of the asymmetry of our respective economies. He also agreed that as many problems were caused by non-tariff barriers as by tariff barriers.

The Prime Minister said that our level of unemployment might be 5%, but the man who was out of work was 100% unemployed. We must have regard to this in adjusting our economies; we could not just leave it to the free market. Mr. Strauss said that a successful conclusion to the MTNs would not solve the unemployment problem. What was needed was a positive and firm line in the communiqué, without getting into the details of the Geneva negotiations. The Prime Minister suggested that there should be some general wording expressing our wish to see an expansion of world trade;

/our determination

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our determination to move forward with the MTNs; and our wish to resist protectionism in view of the hardship which it involved for our people. President Giscard agreed, and thought that the point should be added that we needed an organised and orderly liberalisation and expansion of trade.

Mr. Trudeau said that he did not see how the Summit could come out with a paean of praise in favour of free trade, in view of the discussion yesterday. Mr. Healey said that it was important to emphasise the emergence of structural problems such as the finiteness of energy in our economies.

President Carter thought that the communiqué drafters should be asked to be shorter and more succinct. He thought that a reference to the Tokyo Round must be included. He was not criticising anyone, but he had gained the impression that more concern had been expressed about too much free trade, rather than too little. The Prime Minister questioned this. The fact was that governments risked being voted out of office. The United States Administration had resisted very strong pressure for protectionist measures and this had been very useful for us in facing a situation where our own industries had been nearly wrecked.

Mr. Jenkins said that there were two points which he thought should be included. First, in a situation where strong pressures were being exerted on governments, he thought that there was a need to turn back the tide towards protectionism and to move forward with the MTNs. Secondly, there was a need to give more impetus to the negotiations. President Giscard argued that to say in the communiqué that we were ready to throw our frontiers open, with 7 million unemployed, would subject us to ridicule. It was enough to stand firm. Trade could not be thrown open without taking what the Germans called "social symmetry" into account. President Carter said that he was not advocating that borders should be thrown completely open. There were still bilateral /agreements

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agreements and tariff arrangements, and the Administration faced problems with their Courts. The communiqué must not insinuate that factories were closing because of increased world trade. The United States was trying to boost its economy, and he regarded this as crucial for world prosperity.

The Prime Minister suggested that the afternoon session should deal briefly with aspects of energy other than non-proliferation and should then concentrate on drafting the communiqué.

The session adjourned for lunch at 1320.

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Sir John Hunt.

Dr. Donoghue
Mr. McCaffrey
Mr. Wicks

8 May 1977

Master Set

Extracts: Manpower: Dec 76: PM's initiative against unemployment (international)

Power: PE7, International Energy.

Trade: Feb 77, G.A.T.T. (M.T.N.S)

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