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MR. WHITMORE

2. Prime Minister.

A warathon!

A short Communique that  
please. We only need a long one if we felt  
25' it nowhere.

There was a meeting in Italy last week of Personal Representatives of Heads of State or Government of the "Economic Seven", in preparation for the Venice Economic Summit. I attended as the Prime Minister's Personal Representative, and was accompanied by Sir Michael Palliser and Sir Kenneth Couzens.

2. The purpose of the meeting was to discuss the possible basis of a communique on economic matters for the Venice Summit on 22nd and 23rd June. We did not discuss political matters. On the basis of our discussion the Italian Personal Representative, Signor Ruggiero, will prepare a first draft of a communique, which Personal Representatives will consider in Paris on 23rd May.

3. By way of general introduction to our discussion, Signor Ruggiero suggested (in a session with Personal Representatives only) that the main message from the Summit would need to be that the industrialised countries faced a difficult period ahead, and that there were no quick solutions. We should look for the right short term policies related to appropriate long term objectives. At the same time the Summit need not be pessimistic: democratic societies had shown that they could give their best against such challenges. The analysis was likely to be dominated by the problems of high inflation, high unemployment, low growth, falling productivity, and costly and precarious energy supply in all the industrialised countries. These problems would need to be looked at together. At the same time the Summit would need to look forward to a more positive relationship between the North and the South.

4. In discussion we suggested, with the support of the Germans, and others were inclined to agree, that we might think in terms of a communique which tried to set these problems in a framework of mutual advantage: the industrialised countries needed oil from the oil producing countries, on terms which did not wreck their economies by adding intolerably to their problems of inflation and recession; the oil producing countries needed the technologies and investment opportunities provided by the industrialised countries - and the

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health of their own investments in the industrialised countries would not be served by action on energy supply and price which undermined the viability of those investments; and they also needed the intermediation of commercial financial institutions in the industrialised countries, which might need to be supported and supplemented by the international financial institutions if oil producing countries' surpluses persisted at present levels into future years. The less developed countries needed investment and aid from the industrialised countries and the oil producing countries. To them also the commercial banks in the industrialised countries and the international financial institutions were of critical importance. They also needed the trade opportunities which would only come to them if the markets of the industrialised countries were open to their exports; and the opening of those markets would depend at least in part upon the ability of the industrialised countries to bring about the structural changes which would diversify their industrial activity out of traditional industries with which the developing countries would compete into high technology industries. Thus there were two themes: that of satisfying common needs and that of the need for structural adjustment. An approach of this kind would bring out not only linkages between issues but also linkages between the various groups of countries involved in the world system.

5. The French representative said President Giscard would be mainly concerned with the problems of inflation and the North-South Dialogue. The German representative said that Chancellor Schmidt's interests would include not only inflation and the North-South Dialogue, where he would want to emphasise the needs for the efforts of the industrialised countries to be matched by those of the oil producing countries, but also a firm line on the need for developing nuclear energy, and a concern with the implications for international currency markets of the continuing large OPEC surpluses: he was concerned about the prudential aspects of this, and the ability of the commercial banks to carry the risks that would be involved.

6. The Italian representative said that Signor Cossiga would also be mainly interested in the need to fight inflation, and on the adaptation of industrialised economies to the energy situation and to an open trade system. For him too

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the North-South Dialogue would be a main theme. The American representative said that President Carter would want Venice to show that inflation and its remedies were a common problem; he would be looking, in this field as in the energy field, for the endorsement of commitments to specific measures. He would also be concerned with the North-South Dialogue.

7. There was some discussion whether the Venice Economic Summit should endorse proposals for wider Summits, either between oil producers and oil consumers or between North and South (including oil producers as well as non-oil producers). Most of those present doubted whether there was sufficient community of interest among oil producers to make possible a producer-consumer Summit; but they were inclined to favour German ideas for increasing contacts just below Summit level, on a multilateral as well as a bilateral basis. One or two of the representatives thought that a North-South Summit in which the developing countries were represented by reasonable leaders whose views and commitments would carry weight in the developing world would be useful; others thought that it might be difficult to confine such a Summit Conference to moderate and reasonable leaders from the developing countries; and, once less moderate and reasonable leaders came into the picture, the value of a Conference would be greatly diminished.

8. There was general agreement that a Summit could not avoid addressing itself to North-South problems, in view of the forthcoming global negotiations and of the Brandt Commission report. The American representative suggested that the Venice Summit ought to commission some kind of follow up to the Brandt report; we (supported by others) thought that the Venice Summit should not follow up or tag along behind Brandt, but we agreed that it would need to demonstrate that Heads of State or Government were aware of the perspectives to which the Brandt Commission had drawn attention; and we suggested that, where the discussions in the Venice Summit pointed to conclusions which coincided with those of Brandt, there should be suitable cross-references.

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9. The meeting then turned, from now on in full session, to the five "chapters" which had provided the framework for all Summit meetings so far: macro-economic matters, energy, the North-South Dialogue, international monetary questions and trade. We re-emphasised the need to look at these issues together and to avoid over-compartmentalising them; and we suggested that the Venice Summit need not feel bound by the past framework: if changing circumstances required the Summit to concentrate on different or fewer issues, the discussions at the Summit should respond to that need.

Macro-economic Questions

10. The meeting had before it an analysis prepared by Mr. Charles Schultze of the short term problems of inflation and the medium term requirements for structural adjustment. We suggested that any treatment of these subjects in the Venice communique might be prefaced with a reaffirmation of the belief of Heads of State or Government in the capacity of the Western market system to stand up to the shocks caused by energy price increases and shortages, inflation, monetary instability and threats of protectionism; and of the determination of its leaders to defend the system against these threats. The main commitment, as indicated in the Schultze paper, would need to be to the reduction of inflation, and it would be necessary to emphasise the need for appropriate policies of monetary and fiscal restraint. There was general agreement with the view that no major alteration in policies was to be looked for at present; but there were large uncertainties in the prospects and the industrialised countries would need to maintain close consultation, and to be prepared to adjust policies in response to events. As to the supply side of the economy, there was general agreement on the need for action on the structural adjustments required, though it might not be appropriate for the Venice communique to be quite as specific and detailed as Mr. Schultze had suggested.

Energy

11. We had before us a paper by a working group, but it was generally accepted that it would be difficult to take discussion of this a lot further until after the IEA Ministerial meeting on 22nd May. We had no discussion about oil import targets in the short term; but a good deal of discussion about how far the Summit should go on quantifying targets for 1990. The extreme

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positions were taken on the one hand by the Germans and on the other by the Americans. The Germans took the view that forecasts for 1990 were so uncertain as to be hardly worth making, and were very conscious of the danger that forecasts would come to be treated as goals, so that the deficit foreseen and the measures to be taken to deal with it had to be attributed not just to groups of countries but to individual countries. They would not wish to go much further than talking in broad terms about the need to weaken the link between the relation between GNP and energy demand on the one hand and oil on the other, by conservation measures and the development of non-oil energy sources (chiefly coal and nuclear). The Americans thought that without some degree of quantification anything that the Summit might say about long term energy problems and requirements would lack credibility. They did not insist on talking about targets; they were prepared to think in terms of illustrative figures, or figures as a basis for monitoring progress; but they thought that, without some quantification, the Summit would fail to establish the gravity of the energy prospect and its implications for the whole economic system of the industrialised countries, and would fail to bring home the scale of the requirements for energy conservation and development of alternative sources and technologies. The majority of the representatives agreed that the main need was to demonstrate the link between energy and growth, and the determination to act together to develop alternative sources and technologies, but the Americans kept coming back to the point that, without figures, American public opinion at least would be sceptical. The question of quantification was left over for further study by an energy working group, which would report to the next meeting of Personal Representatives.

12. There was a brief discussion of the effects of energy generation by fossil fuel burning upon the level of carbon dioxide in the atmosphere, on the basis of a paper by Mr. Tickell of the European Commission. The general feeling was that our knowledge on these matters was still inadequate, and the possible implications were the subject of considerable differences among experts; but that the Summit ought to note this as a potential problem, and as one reason for developing as rapidly and as far as possible energy technologies which did not contribute to the build-up of carbon dioxide, including nuclear power as well as renewable sources of energy.

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North-South Dialogue

13. We had a stimulating and incisive paper from the German representative on North-South issues. It suggested that energy was the key to the solution of many of the problems which the non-oil developing countries would be facing in the medium term; it drew attention to the recycling problem and the need to increase the role of the international financial institutions in dealing with it; and it also drew attention to the fact that what would benefit the developing countries most would be access for their exports to markets in industrialised countries. It contained a balanced reference to the contents of the Brandt report but called for no specific follow-up to that report as a whole. The discussion broadened out, however, mainly at the instigation of the American representatives, who had tabled a staff paper on international action to overcome hunger, together with draft communique language which most of the rest of us found unacceptable. We pointed out that North-South issues had not featured very largely in previous meetings of the Economic Summit Heads of State or Government, and should not be allowed at Venice to divert too much attention from the problems which the industrialised countries themselves faced, and which they needed to resolve if they were able to maintain, let alone increase, their help to the LDCs. Eventually the United States paper on action to overcome hunger was tucked away for further discussion by experts, and we came back to the issues raised in the German paper of the importance of concentrating on the improvement of the energy situation of the non-oil developing countries (both conservation measures and development of non-conventional forms of energy), the importance of the IBRD and other international financial institutions, the difficulties of accepting quantitative commitments on official development aid, and the need for wider participation by LDCs in world trade.

14. There was a brief discussion of the Brandt proposal for some form of automatic taxes or levies to finance official development aid, with the object of making aid "less visible" and therefore less politically difficult. We suggested that making taxation automatic, in this sense, did not alter the fact that it represented a transfer of resources and we doubted whether in present circumstances national Governments would wish to forgo national sovereignty

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over taxation. The Americans pointed out that for the less developed countries "automaticity" would mean "non-conditional". In the light of these observations there was not much enthusiasm for pursuing the idea of automatic levies.

International Monetary Questions

15. There were no signs of the promised French initiative relating to the international monetary system. The French representatives made it clear that they had nothing to say on this matter, and implied that there was unlikely to be anything before Venice. We had before us a report of a working group on recycling which was generally welcomed as providing a basis for discussion at the Venice Summit. It was suggested that the Summit should renew the commitment to maintain the stability of the international monetary system, endorse the approach outlined in the report, and give political support to the strengthening of the surveillance powers of the International Monetary Fund. The Summit might also need to consider the United States suggestion for a new affiliate of the IBRD which would borrow from OPEC to invest in energy development in LDC's. But we should have to wait and see how this idea, essentially an additional fund raising scheme for the World Bank, develops.

Trade

16. It was agreed that this would not need to loom large in discussions at Venice. The two points that emerged from discussion of a short paper by Mr. Tickell were:-

- (a) The successful conclusion of the Tokyo round of multilateral trade negotiations and agreement on non-tariff barrier codes should be chalked up as an achievement; but, with the development of recession, there remained the threat of growing protectionism in international trade. The Summit communique would need to stress the importance of resisting that tendency.
- (b) One argument for developing the open trade system was that of enabling developing countries to compete in industrialised markets; but, if that was to happen, those countries would themselves have to reduce their own protectionism. The communique should approve

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the action of those LDCs who had taken steps to open their markets, and express the hope that others would follow suit.

17. It would be for consideration whether anything was said in the Summit communique about reducing undesirable competition on export credits.

18. The American representatives raised two other issues for consideration: illicit payments and terrorism.

Illicit Payments

19. It was recalled that the London Summit had agreed on the need for legislation to ban illicit payments (i. e. corruption in international trade). Negotiations had started but had run into the sand. The Americans suggested that the Venice Summit should make a commitment to resume negotiations on this subject. We suggested that there was a danger that any reference to this subject in the Venice communique would lack credibility in the light of previous experience. It would be better not to include anything in the communique unless there was some reason to think that there was a real prospect of some outcome. The meeting agreed that we should each find out what our Heads of State or Government thought about this.

Terrorism

20. The American representative said that the United States Government would like to include in the Venice communique a draft declaration on international terrorism, with particular reference to terrorist crimes against diplomatic personnel or premises. The British representatives said that they were content in principle - it was obvious that the Americans were under strong instructions - but that the wording would need careful attention from experts: some of the wording proposed might present legal difficulties for the United Kingdom Government. It was agreed in principle to propose a draft declaration for inclusion in the Venice communique: it is to be looked at by a meeting of experts which has already been arranged in the middle of May, and will come back for consideration by Personal Representatives and then by Heads of Government thereafter.





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21. As I said at the outset of this note, the Personal Representatives expect to consider a first draft of a communique at a meeting in Paris on 23rd May. It was clear to me from what Signor Ruggiero said about the form in which he proposed to draft that the first draft would be a very long way from final. I would therefore propose to consult the Prime Minister on the second draft of the communique - that is to say on the draft which emerges after the meeting on 23rd May - which will, I hope, be in more nearly final form for her consideration.

22. I am sending copies of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Secretary of State for Energy.

RA

25th April 1980