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NOTE OF THE FINAL SESSION OF THE HEADS OF GOVERNMENT CONFERENCE AT THE CHATEAU DE RAMBOUILLET ON MONDAY, 17 NOVEMBER 1975 AT 11.50 A.M.

PRESENT

France

President Giscard d'Estaing
M. Jean Sauvagnargues -
Minister of Foreign Affairs
M. Jean-Pierre Fourcade -
Minister of Economy and
Finance

Germany

Herr Helmut Schmidt - Federal
German Chancellor
Herr Hans-Dietrich Genscher -
Federal Foreign Minister and
Vice Chancellor
Dr. Hans Apel - Federal Minister of
Finance

Italy

On Aldo Moro - Prime Minister
On Mariano Rumor - Foreign
Minister
On Emilio Colombo - Minister
of the Treasury

Japan

Mr. Takeo Miki - Prime Minister
Mr. Kiichi Miyazawa - Foreign
Minister

United Kingdom

The Rt. Hon. Harold Wilson,
O.B.E., M.P.
The Rt. Hon. James Callaghan,
M.P., - Secretary of State
for Foreign and Commonwealth
Affairs
The Rt. Hon. Denis Healey, M.P. -
Chancellor of the Exchequer

United States of America

President Ford
Dr. Henry Kissinger - Secretary of
State
Mr. William Simon - Secretary of
the Treasury

EAST/WEST RELATIONS

Signor Moro said that close economic and social relations between East and West Europe were part of our historical tradition and were especially important at present. He believed that it was useful to maintain close relations between the European Community and the smaller countries of Eastern Europe, in order to counter-balance the influence on them of the Soviet Union. In qualitative terms, economic relations between East and West represented only 5 per cent of the exports of industrialised countries, although the percentage varied from 7 per cent in some cases to only 2 per cent in the case of North America. In 1974, Japanese and West European exports to Eastern Europe had totalled 27 billion dollars, whereas imports had totalled only 23.4 billion dollars. The nature of imports into Eastern Europe varied considerably; in the case of Poland there was considerable emphasis on agricultural and other machinery whereas, in the case of the Soviet Union, imports from the rest of the world represented only 5 per cent of G.N.P.

In other words, East/West trade was of no particular importance in terms of quantity but qualitatively it represented an important factor of stability and a part of the whole atmosphere of detente which had grown up since the second world war and which had been confirmed by the Final Declaration of the Conference on Security and Co-operation in Europe at Helsinki. East/West trade had also reduced

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some of the disparities of standards of living between Eastern Europe and the rest of the industrialised world.

Signor Moro gave an analysis of the historical development in relations between East and West which he described as a constant expansion of trading links characterised by an increasing commercial deficit and a deteriorating balance between exports and imports, particularly since 1962. Among the reasons for this were the nature of economic development within COMECON and the need for industrial plant and technology from the West. There was also the continuing inability of Eastern Europe economies to produce goods regarded as satisfactory in the West. Recession had also hit Eastern countries like the rest of us although the smaller countries, such as Bulgaria, had been hit worse than those like the Soviet Union who, as oil producers, had been able to exploit the rise in oil prices. The traditional framework of East/West trade nevertheless remained unchanged, with imports of manufactured products and exports of primary goods.

Signor Moro said that the deficit of Eastern Europe and China had increased from over 2 billion dollars in 1972 to over 4 billion dollars in 1974, of which China was responsible for only half. The rate of growth in the East had been largely determined by the readiness on the part of Western industrialised countries to grant Export Credits. The structure of planned economies and bilateralism had made it easier for all the Eastern countries to call on Credits, although the Soviet Union had been the main beneficiary with 57 billion dollars worth of Credits by the end of 1975. They had also received privileged terms for these Credits and there was in addition a trend towards the development of Bank Credits, although the European markets remained somewhat cautious.

Signor Moro said that the rules which had been established in the West for safe-guarding freedom of trade were difficult to apply in Eastern Europe, although Poland and Romania had adopted a pragmatic attitude in their economic relations with the West. He suggested that the Governments represented at Rambouillet might consider calling for a pledge for gradual expansion of trade with the West on the part of Eastern Europe, and that further consideration might be given to associating the Soviet Union and China with G.A.T.T. Romania was the only Eastern country at present in the I.M.F., although it was possible that others might apply. If they did, it was likely that the trend towards bilateral trade would lead to difficulties for the I.M.F. mechanism.

Signor Moro thought that East/West economic relations should be seen in the context of general international relations, including those between North and South. It was envisaged that the L.D.C.'s deficits would total 30 billion dollars in 1976, which could threaten world economic recovery and lead to massive starvation in the less developed world. The volume of Credits being granted to Eastern countries was not, in his view, justified when one looked at them in this light. The Soviet Union's contribution to the development of the Third World had been very modest so far, and had mainly been directed towards Socialist countries. The time had perhaps come to get the Russians to take more part in aid programmes under multi-lateral auspices, either through participation in the price stabilisation mechanisms or through other facilities.

There was also a need to control or monitor the behaviour of Eastern countries who often adopted trading practices which caused difficulties for Western markets such as the subsidisation of exports and the practice of servicing debts by means of manufactured goods. There was also a problem of lowering interest rates and extending terms of repayment, and the recourse of Eastern countries to Bank Credits was likely to strengthen this trend and to reduce the chances of harmonising Credit policy. There was a need to set a minimum rate on export Credits and to harmonise the terms, although studies on this question had not so far succeeded. Signor Moro accepted that some flexibility was desirable, but he thought that the Conference should commit the United States, Japan and the European Community to make further progress on this subject.

Signor Moro said that there was also the problem of the shortage of primary commodities on which a common initiative was required. He referred to the recent U.S./Soviet agreement on oil, which could well have an effect on cereal prices. There was a need for some co-ordinating machinery in this connection. He accepted that it was difficult to apply firm rules for East/West relations in the economic field, particularly since the conflict between planned and market economies led to asymmetrical behaviour. In present circumstances, it was easy for Eastern countries to compete for Credit facilities from the West and he believed that some "technical instruments" were needed to ensure some permanent co-ordination to guard both against this degree of competition and against consequent dumping.

President Ford said that strong economic ties between East and West represented an essential part of United States Government policy. For many years, the role of the United States had been negligible in this connection, but this was no longer so and his Government had a direct interest in increasing the level of East/West trade. Quantitatively, United States trade with Eastern countries was still relatively small and had last year amounted to a little over 3 billion dollars. By 1980, it was expected to rise to over 11 billion dollars. This was clearly not only of importance to the United States but to all the countries represented at Rambouillet. Increasing trade was one means of strengthening detente.

As his colleagues would know, the Trade Act of 1974 had contained amendments designed to restrict East/West trade by linking Most Favoured Nation treatment to the rate of emigration from the Soviet Union, and he believed this had been harmful to American interests. The recent agreement on grain sales was economically beneficial, and should help stabilise erratic Soviet purchases of grain and the resulting price fluctuations. He emphasised that the agreement was designed to meet only average grain requirements and not peak demands of the sort which had occurred this year and in 1972. Some type of international agreement on grain reserves was essential in this connection.

President Ford said that the United States Government were also negotiating with the Soviet Union on purchases of oil, but he assured his colleagues that this would not threaten the co-operation on energy questions which had now been established. Increased East/West trade had to rely on Credit to enable Eastern countries to

finance their imports, but he agreed that it was not economically wise or in the general interest to act in competition. It would be better to harmonise Credits and to fix rates which reflected more closely the actual state of the market. The first step should be to conclude a Gentleman's Agreement on Export Credits, and the United States Government was ready to consult further on this point; he hoped that his colleagues were also. If they were, he was sure that we should be able to achieve further progress.

Chancellor Schmidt said that he would like to see such a Gentleman's Agreement, and the German Government were ready to take part. If some of his colleagues had reservations about this, he suggested that now was the time to express them, though not of course in public. The Prime Minister said that he agreed with the line taken by President Ford and Herr Schmidt on the question of a Gentleman's Agreement.

President Giscard said that, on the question of harmonising Credit facilities, we needed to bear in mind certain difficulties. The first was that existing agreements with Eastern countries could not be modified after signature. The second point was that, when one compared Credit facilities, one needed to consider three variables, namely rate, duration and payment of accounts. Harmonisation needed to cover all three, and this was not easy. He was in favour of negotiations in principle, but could not meanwhile give his formal agreement. The Prime Minister said that one difficulty was that some of us who had had, like himself, trade negotiations with the Soviet Union, had not known what terms had been offered by other Western Governments. It was not always easy to check claims made by the Russians about the Credit offers which they had received from others. Either one did not believe them, and failed to get an agreement; or one believed them and drove down interest rates further. The Romanians, for instance, had claimed that they were paying only 2½ per cent, which was clearly nonsense. The first step in reaching a Gentleman's Agreement should, therefore, be to establish what each of us was now doing.

President Ford said that a high degree of unanimity would be needed in order to reach a Gentleman's Agreement. The United States Government was in favour of it, and if there was no reference to this in the Communiqué, there might be some loss of impact since it would be clear to the Russians that the Western industrialised world did not propose to take any action on this subject.

Chancellor Schmidt said that he agreed with President Giscard that existing deals should be excluded from any further Agreement. On the point made by President Ford about a reference in the Communiqué, he suggested that the passage included in the draft for the Communiqué, which referred to an "orderly and fruitful increase in our economic relations with Socialist Countries" should be adequate for this purpose. President Ford said that he would prefer some specific mention of a Gentleman's Agreement, and suggested that the Communiqué should include a passage on the following lines: "we will also intensify our efforts to achieve a prompt conclusion of the negotiations now under way to reach a Gentleman's Agreement on Export Credits". After some discussion, it was agreed, on the suggestion of President Giscard, that this sentence should read: "..... negotiations now under way concerning Export Credits".

After President Giscard had suggested, and all present had agreed, that the Communiqué should be referred to as "the Declaration of Rambouillet" a discussion of the text followed.

Referring to the passage in paragraph 12 of the draft, recording the welcome of the Conference to the rapprochement reached between the United States and France on international monetary questions, Signor Colombo said that he understood that there had been a suggestion that, in order to reduce erratic fluctuations in exchange rates, daily consultations should take place between the Central Banks of the Five and less frequent contact between Ministers of the Five. This presented a political problem for the Italians, and while they were quite content with the draft passage for the Declaration, they did ask that these consultations should extend to Italy also. President Giscard said that he could understand the Italian problem, but Signor Colombo's suggestion presented a practical difficulty. Subject to United States agreement, he suggested that each reference to the Five in the Bilateral Agreement should be replaced by the words "the Central Banks/ Finance Ministers concerned". Meanwhile, the question of who should actually participate should remain open, and decisions on this should await the meeting of Finance Ministers in Jamaica. Signor Colombo agreed.

In the course of a discussion on the passage relating to energy (paragraphs 15-17) President Giscard said that he wished to make it clear that the reference to co-operation in the draft should not be taken to imply that France was now ready to take part in the International Energy Agency (I.E.A.) The French Government would, if necessary, have to make this clear. The text of the Declaration was agreed, and the meeting adjourned at about 1.00 p.m.

18 November 1975

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