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OTTAWA ECONOMIC SUMMIT CONFERENCE

RECORD of Plenary Session at
Chateau Montebello, Ottawa on
TUESDAY 21 JULY 1981 at 0930 hours

The Meeting considered the Seventh Draft of the Communique.

The United Kingdom delegation proposed drafting amendments to paragraphs 1 and 2; these were accepted.

Paragraph 5 of the Draft started with the words: "We need urgently to reduce public borrowing". President Mitterrand said that the wording of this paragraph did not wholly fit the French situation. The meeting invited Personal Representatives to consider a redraft.

The last phrase in paragraph 6 of the Draft read: "stability in foreign exchange and financial markets is essential for the sound development of the world economy". The Italian delegation wished to replace this by a phrase to read: "and to consider some form of intervention in exchange markets to deal with disorderly conditions and erratic movements of exchange rates, in line with IMF guidelines". President Reagan asked for the deletion of both clauses. Signor Andreatta said that it was necessary to have an agreed form of intervention, to avoid the disruption of trade and the increase of protectionist tendencies which arose from erratic movements of exchange rates and disorderly conditions in exchange markets. President Reagan could not accept this: in the United States the authorities would intervene only in a major crisis of confidence, not in normal conditions. Mrs Thatcher commented that you could not say that stability was essential, because you could not achieve it by declaration: the volume of funds able to move was too great. Herr Schmidt said that the discussion was astonishing him. For 6 years there had been agreement on arrangements for avoiding disorderly movements by intervention in exchange markets. If President Reagan was saying that there would be no intervention unless somebody was shot, he was worried. He agreed with Mrs Thatcher that you could not stem the tide of international movements; but erratic movements and disorderly conditions

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were the classical conditions where one did intervene in exchange markets. He therefore supported the Italian proposal. President Mitterrand said that he could endorse what Herr Schmidt had suggested. He had brought out the obvious political reality of the point. After further discussion the meeting agreed that the phrase should read: "stability in foreign exchange and financial markets is important for the sound development of the world economy", and that the Italian addition should not be included.

Again on paragraph 6 of the communique, President Mitterrand said that he would like some qualification of the reference to "containment of budgetary deficits": he agreed in principle with the sentiment, but the French budget deficit was only 2.2 per cent of GNP, perhaps the lowest among the countries represented round the table: it was likely that his Administration would increase that figure to 3 per cent but would not go above that point. Herr Schmidt proposed, and the meeting agreed, that the wording should be altered to read: "most of us need also to rely on containment of budgetary deficits".

A small drafting amendment to paragraph 12 (about global negotiations), suggested by President Reagan, was accepted. Herr Schmidt, Signor Colombo and Mr Trudeau all made it clear that they would accept the global negotiations.

Signor Spadolini asked the meeting to accept an additional sentence at the end of paragraph 19, referring to an Italian initiative in the field of food aid. This was accepted in principle, and Personal Representatives were asked to agree the wording.

The meeting accepted a proposal by Herr Schmidt to add at the beginning of paragraph 20 the words: "We are deeply concerned about the implications of world population growth." Herr Schmidt said that an earlier draft had been weakened, and it was important to strengthen the draft before the meeting.

On paragraph 26, President Mitterrand, without proposing any redrafting, reminded the meeting that he had suggested that there should be a link between the GATT's work on the open multilateral trading system and that in the OECD. Monsieur Thorn, also without proposing any redrafting of the

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paragraph, reminded the meeting that, before a Ministerial Meeting of GATT there would need to be high level discussion in the European Community.

In the section on energy, paragraph 30 read: "To these ends we will continue to rely heavily on market mechanisms, supplemented as necessary by Government action". President Mitterrand said that he had read that four times, but could not make it mean anything. Mr Trudeau said that what it meant by market mechanisms was market prices.

A number of points were made on paragraph 32, about the development of new nuclear facilities. Herr Schmidt wondered whether the meeting could be really sure that we could deal with the long-term management of nuclear waste. President Mitterrand said that he thought we could; the trouble in France was that public opinion had not been sufficiently taken along by the previous Administration, with the result that they were up against a kind of medieval fear. Mrs Thatcher was inclined to agree with Herr Schmidt that it was not easy to convince people that we had the answer to spent fuel management. The residues would be small in quantity, they would have a half life of 500 years. There had to be research to shorten that period. Nonetheless it should be possible to give a considerable amount of reassurance in the communique. It was important to show a readiness to respond to public concern about these matters. After further discussion a redraft suggested by Mrs Thatcher was accepted by the meeting.

On the suggestion of President Mitterrand, it was agreed to insert a new paragraph about the development of sources of renewable energy. Personal Representatives were invited to agree a text.

Before considering the section of the communique on East-West economic relations, the meeting turned to the draft conclusion. As drafted, this contained a final sentence which read: "We intend to maintain close and continuing consultation and co-operation directly with each other, and by making the greatest possible use of the opportunities provided by inter-Ministerial contacts and by arrangements for preparing Summits". This led President Mitterrand to express his worries about the bureaucratisation of the Summit process. He said that it detracted from the value of these informal and wide-ranging talks among Heads of State or Government. He

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was suspicious of all these texts, and all the preparations that seemed to be involved. He would prefer fewer people to be concerned, and less paper. He saw a danger in long communiques: a very brief communique would carry less risk of error. If things went on as they were, there would soon be a Sherpas' trade union, and before very long there would be an association of retired Sherpas.

Mr Trudeau thought that the words in the draft communique were not intended to create any new forms of permanent consultation, but simply a determination to make the most of the existing opportunities.

After discussion, the meeting agreed to shorten the sentence, so that it read: "We intend to maintain close and continuing consultation and co-operation with each other". The meeting also agreed to delete the phrase which, in the draft, had introduced that sentence.

The meeting then turned to the section on East-West economic relations.

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Mr. Trudeau said that it was now proposed to end paragraph 35 of the draft communique after the word "objectives" The United States then wished to add two new paragraphs on the following lines:-

"36. We will undertake to consult to improve the present system of controls on trade in strategic goods and technology with the USSR.

"37. We will also undertake to examine the risks of becoming more vulnerable as a result of the dependence on Eastern resources and markets and where useful, will undertake joint action to deal with such threats."

The new paragraph 36 was an allusion to COCOM and in a sense replaced the last few words of paragraph 35 which it was now proposed to omit.

Herr Schmidt said that he felt the meeting should discuss paragraph 35 before it looked at the new paragraphs proposed by the Americans. Even this paragraph went further than he had anticipated when he had been preparing for the meeting. He had no objection to consultations but he would like to know what was meant by co-ordination. He remembered vividly what had happened as a result of co-ordination among the Western allies on the Moscow Olympic Games. He had similar memories about co-ordination on Iran, though when it had come to action, he had felt a little lonely. He did not want to fall into another trap. How far were the countries represented at the meeting really ready to engage themselves?

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Because of geography, Germany had traded with Eastern Europe, and what was now the Soviet Union for hundreds of years. Moreover, Germany was today a divided country and she had to maintain a certain minimum of human communication with the countries to the east of her. That in turn was, in part, a function of the degree of economic exchange. In statistical terms West German trade with Eastern Europe did not amount to a great deal. For example, trade with the Soviet Union was about half that with Switzerland and only a little more than that with Luxembourg. But it had a symbolic significance for the Federal Republic. There were still one million Germans living in Eastern Europe outside East Germany, and in East Germany itself there were 16 million Germans. The Federal Republic felt a responsibility for these people and did not want to cut them off. Similarly, we should have in mind the position of other East Europeans like the Poles. Many of them wanted to see their connections with the West maintained and strengthened, and we should not give them the impression that we did not regard these links as important. They wanted to see East/West trade continue, and so did the Federal Republic.

President Reagan said that all Western countries were engaged in this matter and they all did business with the Soviet Union. The new paragraphs he had circulated were not aimed at any one country. Nothing in them called for restraint on trade with the East. He was simply suggesting that East/West trade should not be allowed to weaken the resistance of the West to Soviet expansionism. He and his colleagues were all concerned with the great cost of national security, and he did not want to make that burden heavier by supplying the Soviet Union with goods and technology which would strengthen Russian military capability. What he was suggesting was that there should be consultation to ensure that the allies shared a continuous assessment of the threat of Soviet expansion.

Herr Schmidt said that the European community sold vast quantities of cheap butter and milk powder to the Soviet Union. This was a ridiculous and unfair burden on the Community's taxpayers, but there appeared to be no way of stopping such trade. Similarly, the United States had lifted the embargo on the supply of wheat to the Soviet Union in order to help American farmers. The fact was that we all dealt with the Soviet Union on the basis of mutual

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benefit, which was the principle underlying international trade, whether the commodities in question were wheat, butter or natural gas. Nonetheless, there was a need for control of trade in strategic goods and materials and related technology, and all the allies should take part in such control. This was why COCOM existed. He had no objection to mentioning it in the communiqué. But he did not want to agree to additional measures of control on trade, the consequences of which he could not foresee.

President Reagan said that he thought that Chancellor Schmidt was confirming some of the things he had said himself. He had always been opposed to President Carter's wheat embargo. He had thought it an empty gesture made for domestic reasons, while the United States continued to supply high technology to the Soviet Union. He had lifted the embargo because he had believed this would be helpful to those of his allies who had felt that he was being intransigent. We did need to consult each other about the consequences of trade with the Soviet Union. We were all allies living under the same threat, and we must ensure that what we did was in the best interests of our collective security.

Mr. Trudeau said that they had not been able to reach a consensus on the new paragraphs 36 and 37, and there remained some objection to the existing paragraph 35, though he did not believe that this was major. He now had to adjourn the meeting so that it could move to Ottawa for the afternoon session. Personal Representatives would try to reach agreement on this part of the communiqué over lunch and he would report the outcome when the meeting resumed in the afternoon.

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