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From the Secretary of the Cabinet: Sir Robert Armstrong KCB.CVO

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21 June 1982

Versailles Economic Summit

--- I enclose a full record of the plenary sessions of the Summit. I am also sending copies of the record to Nigel Springthorpe (Treasury), Ian Fitzpatrick (Energy), Peter Lawrence (Trade), Vi Read (ODA), Peter Bunn (Industry), Peter McCarthy-Ward (Employment), Robin Nicholson (CPRS), and of course to John Coles (No 10).

D. J. WRIGHT

(D J Wright)
Private Secretary

R A Burns Esq

Note for the Record

Versailles Economic Summit, 4-6 June 1982

FIRST PLENARY SESSION 9.45 am SATURDAY 5 JUNE 1982

President Mitterrand (France) welcomed the other Heads of State and Government to the 1982 Economic Summit. The previous evening he and his colleagues had discussed a number of political questions. Today they would concentrate on economic matters which influenced political choices. He did not accept that the individual views of the members of the Summit were too divergent to be harmonised. It was a common aim to facilitate trade between the countries represented at the Summit and to try to ensure that one or two of those countries did not prevent the rest making progress. But this meeting was not a court of judgement: for example, we all took protectionist actions in one way or another.

The first major problem was the world economy. Everybody was responsible for attacking the problem of the crisis together. The Summit leaders had to get their priorities right and look at things correctly. They must base themselves on the facts and have no pre-conceived ideas or prejudices. One aspect of the crisis was relations between East and West. This was not just a question of military matters, for no country could pursue a defence policy with its economy in ruins. East/West relations were equally a matter of economic relations, and the Summit should tackle the question of trade and credit. And since the economic crisis was a world phenomenon, the meeting would also need to discuss North/South relations.

Technology

President Mitterrand went on to say that he had produced an introductory document which was about technology and its effects on employment, both in the seven major industrialised countries and in the third world. If we could get to grips with the third industrial revolution, we should be organising our own future. He was not suggesting a kind of super-general staff for ourselves and for the world. Nor was he suggesting that technology was only at the service of the State. But we had to help encourage research and the industrial development of technology. His report ran to 32 pages and so he would only summarise it. Since Ottawa five million people had lost their jobs. The world economy and world trade were sluggish. Currencies were unstable. In the third world conditions had deteriorated: large numbers of people had died of

starvation since the Ottawa Summit. Yet there were some successes. Inflation was down in a number of countries, and some were showing some growth. France had not been successful in bringing inflation down, but her growth of unemployment was flattening out. All had to learn from each other. It would be impossible for the leaders to leave Versailles without showing that they could do something. We had to produce something to inspire young people. We had to regenerate our spiritual values and give our peoples a taste for life. The first part of his report sought to show what new technologies such as bio-technology, information technology and oceanic research could achieve. The means of taking advantage of these technologies existed: there was an immense reservoir of intelligence to propel us forward. We needed to get bold policies going again. We had to adapt our industries to new technology. We must agree to fight together to reduce the divergencies between North and South.

His report then went on to propose a number of measures which would enable us to set ourselves goals and programmes. A specific suggestion was that a Committee should be set up to carry these tasks forward. We needed to discuss together such matters as working conditions, employment, education and communications. Why should we not have a United Nations university? Why not a world network linking different languages? Why not a world encyclopaedia? It might be asked what all this had to do with the matters which were traditionally discussed at the Economic Summit. The answer was everything, for all these issues were about democracy.

Mr Suzuki (Japan) said that what they were discussing was how to revitalise their economies. This was something to tackle in co-operation and not by confrontation. We must look to the future and not to the past. We had to work together to deal with the world crisis. In particular we had to tackle the mounting tide of protectionism. We must join forces and develop the encouraging aspects of the present situation. Though since Ottawa the general position remained serious, there were some good things. There had, for example, been an improvement in inflation since Ottawa. With respect to trade, while Japan believed that her market was as open as anybody else's, she had taken further measures, such as tariff reductions, to open up her market even more. He would try to make the measures work. At the

same time he looked for co-operation from other countries. We had to work together in the GATT Ministerial Meeting on such things as trade in services, investment and high technology. Japan was continuing to try to achieve growth led by domestic demand. They were expanding their programme of public works. While seeking to maintain an appropriate value for the yen, Japan was working for a correct balance in her economy. He agreed that new technology should make possible a return to growth, a strengthening of economic equilibrium and an improvement in economic conditions generally. For example, micro-processors had improved both industrial productivity and the working conditions of employees. Japan's thinking on the promotion of science and technology rested on a number of bases. First, research and development should depend primarily on the private sector, with the Government coming in where the risks and lead times were too great for the private sector to cope with unaided. Second, the principles of free exchange should apply, and efforts should be made to remove barriers. Third, there should be transfers of technology, not least between North and South. Finally, Japan believed in working for a consensus between management and labour, for example on the introduction of robots, which could create more jobs than they saved.

The Summit should give a new boost to co-operation in the field of science and technology. He agreed that a working group should be set up. There would be many matters for it to consider, and Japan would contribute actively. We should not, however, overlook the effects of technology on national customs and on traditions of international development. We should respect differences of national cultures. But nothing must deflect us from tackling our present problems. We needed a message of hope for the future and a focus for developing unity.

Chancellor Schmidt (Germany) said that he welcomed President Mitterrand's report and what Mr Suzuki had said. The great problem facing us was the growth in world population. When he had been born the world population had been two billion: by the end of the century it would be six billion. He was over-awed by this rate of growth. His fear was that we should not be able to feed all these people or give them all jobs. So technological development was vital. We had to take a positive attitude to the growth of world population and to what technology could offer. At the 1983

Summit we should look in more detail at the problems of over-population and of the exhaustion of national resources. More aid to the Third World would be needed. The churches should also be involved. He had twice talked to the Pope about the problem of over-population, though without much success. He agreed that a working group on technology should be set up, made up either of the OECD countries or all those attending the Economic Summit. Its mandate should be confined to precise matters, though he repeated that next year's Economic Summit should have a report on over-population and the depletion of natural resources.

Signor Spadolini (Italy) welcomed President Mitterrand's initiative which offered a new aspect to Summit meetings. We needed to define the dimensions of the third industrial revolution. We should also define the possibilities and limits of action. We should not stop or slow down industrial development. Rather, we must guide it and control it, since it determined the future of our countries. Technology must be a tool to promote the development of democracy. The control of inflation was essential. Private initiative and the free forces of the market must be the driving force. But our economic future would depend also on what governments did. Governments had to guide and control spontaneous trends. We needed a clear frame of reference for the development of national effort and international co-operation. He agreed with the proposal for a working group to consider the issues that had been raised and to identify the possibilities for taking action. He also accepted that the work which this group would undertake would have to respect cultural diversities.

Mr Trudeau (Canada) said that it was obviously right to look to the future. The working group should either include in its membership or have associated with it people who could define and analyse what was emerging from the third industrial revolution and its social and cultural implications. Hitherto we had not always thought enough about the implications of technological development, for example, its effects on the environment. We needed a philosophy of technology.

He agreed with Chancellor Schmidt about the problem of over-population. We needed a new system of moral values which included the concept of inter-dependence.

President Mitterrand (France) said that one of the problems which France was facing was that expenditure on her health and social services was increasing exponentially. It was not properly controlled. Bio-technology, if wisely applied, could help to reduce health expenditure. Bio-technology could also enable agricultural production to be increased by factors of four or five or even 10. This would be an immense help to developing countries, very few of which were self-sufficient in food.

He was grateful to the meeting for supporting the idea of the working group which would report back to the 1983 Economic Summit. He had visited all his colleagues before the Summit. He had found this very helpful, and he had learned a great deal about where they agreed and where they diverged. There had to be greater co-operation between them, and the working group which they had decided to set up would be a step in that direction.

The session was adjourned for a break of 30 minutes.

When the meeting resumed, M Martens (Belgium - European Community Presidency) said that he had one or two points to make on the Report on behalf of the European Community. We did not have to bow our heads to the world economic crisis and simply accept it. Technology gave us the means to combat it and to establish growth. The Community saw the Report as a message of hope. It was also a back-drop to the Summit's discussions on the world economy, for no other reason than because of the massive investment which technology required. Moreover, there was a link between the Technology Report and unemployment, since unemployment required an increase in vocational training for the young and new technology generated its own demand for training. We must all learn to use technology more efficiently. The European Community had already set itself a programme on the lines of President Mitterrand's Report; that Report would now help the Community to focus its work. The question was what part the Community could play in the working group proposed by President Mitterrand.

President Reagan (United States) said that he welcomed President Mitterrand's Report as an antidote to the view (advanced particularly in his own country) that there were limits to growth. He supported the proposal to establish a working group. Technological dynamism was a characteristic of the West, as opposed to the East, but it took different forms in different countries.

In the United States 50 per cent of the stimulus to technological development came from the private sector. His tax programme included incentives for technological development. He believed that the Seven Summit countries should co-operate to remove barriers to the flow of technology, particularly in areas of high cost and high risk. The potential of technological development was enormous and, as history showed, often unpredictable in its fulfilment. More than two thirds of the world's population was engaged in agriculture in its most primitive forms, but it was within the realms technological possibility for us to feed the population of the world from 10 per cent the acreage now farmed. Nonetheless, it was important that Governments did only what was appropriate to them and left open full scope for individual effort and initiative.

The Prime Minister said that there had been a number of references to the third industrial revolution. In fact there was nothing new about new technology. Technology had not destroyed jobs but had created them. But the problem about new technology was that it tended to come in spurts, and that made it difficult to deal with the consequences for employment. This was why the present spurt had led to some resistance, and we had to overcome this opposition. New technology meant putting more money into investment, and that could only be found from consumption and programmes like social security. Frequently - and particularly where unionisation was strongly developed - it was possible to get new technology accepted only where there was superb management: this was part of Japan's secret of success. We also had to ensure that our tax systems helped risk-taking.

Looking at the meeting more generally, we had to ask ourselves what we would do differently as a result of the Summit. Thanks to previous Summits, member countries were coming out of their economic difficulties in a much sounder way than had been the case with previous recessions. Earlier Summits had also helped us to keep a more open world trading system. We all had some protectionism, but if we were to get more growth and employment, we had to have an open trading system.

She welcomed the idea of a working group which would consider the general aspects of President Mitterrand's Report and make practical proposals. It would be particularly valuable if the working group could make suggestions as to how public opinion could be influenced to welcome and not fear the arrival of new technology.

Chancellor Schmidt added that he thought that what the Prime Minister had said about influencing public opinion was so important that it should be reflected in the declaration at the end of the meeting.

President Mitterand said that the primary reason why he had prepared his Report was that technology created jobs and generated growth. In the first two industrial revolutions too long a time had elapsed between the revolution itself and the consequent creation of jobs. This time we must reduce the interval. Perhaps we had already lost 10 years; we must not lose another 10. Technological progress would improve productivity and make jobs more interesting. He suggested that the meeting should now turn to macro-economic problems.

The World Economy

Chancellor Schmidt said that according to OECD estimates the seven countries represented at the Summit would not have a higher aggregate GNP in 1982 than in 1981. At the same time in 6 out of the 7 countries unemployment would be between 6 and 12 per cent of the working population. There were 30 million people out of work in the OECD countries. The world economy had gone off the rails. Even so, 1983 looked slightly more favourable. Inflation had peaked in most countries, and current account deficits were coming down. We were adjusting to higher energy prices. There would be higher growth in 1983. Nonetheless, unemployment would continue to rise, and we should be judged by our success in dealing with unemployment, while avoiding a slide from recession into depression and the destruction of the world trading system. Our difficulties were the greater because of past failures and mistakes. There was only very limited room for manoeuvre. While each Government had to have its own policy which was suited to its own situation, none of us was in a position to go it alone. Success or failure in tackling our economic problems would determine the political stability of our societies. He therefore welcomed acceptance of a common responsibility for stability of the monetary system and for the maintenance of the world trading system. It was not enough just to talk about it: we had to do something about it when we returned home. We needed free trade and orderly conditions in money and exchange markets. Our efforts had to extend to

North/South relations and to East/West relations. We must not strive for success by means of a deflationary budgetary policy or by reflationary actions. We should concentrate on cutting public expenditure and encouraging investment. We should seek to reduce budgetary deficits and to bring interest rates down. It was important that there should be close collaboration between monetary authorities in order to lower interest rates and stabilise exchange rates. High real interest rates were a great problem, and it was essential to reduce them in order to provide the incentive for productive investment. We therefore needed to give the markets a clear signal that budgetary deficits would be brought down. He welcomed President Reagan's efforts to reduce the US budgetary deficit. The United States was the key to the world economy. This was not an easy situation for the United States, but they had a leading role and nobody could take it from them. The other countries at the Summit could not dissociate themselves from American capital markets and American interest rates. He did not pretend that the Europeans had done everything right: if they had, they would be in a better position than they were now. The Federal German Government had brought down its PSBR to a much lower level than when the 1978 Summit had asked the Federal Republic to act as an economic locomotive. The Federal Republic did not want to be asked to adopt this role again, for they were still suffering from the effects of the excessively high PSBR which had resulted from the 1978 Summit. They had introduced measures to increase employment and improve investment. This had involved reductions in expenditure in other areas. This was far from easy. The Federal Republic did not wish to change the core of its social security system because of the threat to social stability which might arise. They had inflation well down and were achieving an export growth rate of 3 per cent per annum. But he remained very worried about unemployment.

President Reagan said that the United States was plagued, like others, with unemployment and with high interest rates. His administration had adopted a policy 180° different from President Carter's. This was the 8th post-war recession. On previous occasions US Governments had tried to find a cure in "quick-fix" spending. But each attempt at a cure had led to another recession with greater unemployment and higher

inflation than before. In 1980 the 7th recession had pushed up unemployment, inflation and interest rates to record levels. His administration had instituted a turn-round in the increase in Government spending. It was now going up half as fast as when he had taken office. But this had not done enough to bring down interest rates sufficiently to help the car and house-building industries. Inflation was down from 12.4 per cent to less than 1 per cent in the last 3 months. The only reason why interest rates had not followed inflation down was a pessimistic belief that Congress would revert to the old ways of the "quick-fix". He believed that that was wrong. He was still working to get the deficit down. The budget which had been rejected would have taken the deficit down by \$358 million over 3 years and put it on a trend towards balanced budgets.

Despite the high level of unemployment, there were more people in jobs than at any time in the history of the United States. In May unemployment had gone up from 9.3 per cent to 9.5 per cent, but there had been a million more people in the job market than there had been a year before, and 800,000 of them had found jobs.

He recognised the effects of high American interest rates. He believed that they were being held up for psychological reasons. He believed that when Congress passed a budget which showed that the reduction of budget deficits was for real, interest rates would come down. He did not think that his tax cuts would result in a loss of revenue: on the contrary, he believed that they would stimulate and thus increase national income and also in consequence tax yield. That was what had happened when President Kennedy had cut taxes. He knew that our economies all affected each other. The United States would stick to its plans. He agreed that there should be closer co-operation, probably at Ministerial level, between the Seven Summit countries. He believed in intervention in the exchange markets to prevent disruption, though not as a permanent activity. He thought that a joint study of intervention in the markets would be useful.

The Session was adjourned for lunch.

The World Economy

When the meeting resumed after lunch, Signor Spadolini (Italy) said that social stability and international strength depended on our ability to manage our economies, to control inflation, to restore growth and to reduce unemployment. We had to have both a plan and a will to face these problems. President Mitterrand had made an imaginative proposal that morning. We must face our problems in a co-ordinated way and use all the means at our disposal. This did not imply a uniform approach: rather, we should co-ordinate our diversity.

Mr Trudeau (Canada) said that there was a need for a general will to accept sacrifices for the sake of growth. Could we simply continue with our anti-inflation policies, accepting whatever the cost was in unemployment? If we had to do that, we should say so together. But perhaps the message to be put over should be different. President Reagan had said that interest rates would come down if people were convinced that US budget deficits would be reduced, but could we wait? Waiting for lower US interest rates was having disastrous consequences for Canada. We could not wait for the American mid-term elections. Could we help President Reagan? He would like to help Canada by helping the United States. Could we help to persuade Congress to agree to what was necessary in order to bring down interest rates? He wanted to take some hope away from this Summit.

President Reagan (United States) said that he believed that the United States was on the right track to reduce inflation and, with tax incentives, to stimulate growth and create jobs. There were two factions in Congress. First, there were those who wanted to proceed more slowly than the Administration. Then, there were others who wanted to go faster; but this would require deeper cuts in social security than he wanted. There were already some signs of economic recovery. Tax cuts and indexed increases in social security benefits in July would put \$30 billion into the US economy. More housing permits were being issued. The regulations which his Administration had cancelled had reduced paper work in the private sector by two million man hours a year.

Mr Trudeau said that he believed that unions were exercising restraint in their wage demands at present because of their fear of unemployment. When this passed, he thought they would seek catching-up wage increases again and that these increases would be passed on to the consumer.

President Reagan said that he did not agree. In the American automobile industry, unions had agreed to forgo wage increases for the sake of their companies. He did not think that unions would get catching-up increases; nor did he believe that such increases would be made possible by passing them on to the consumer. Management had learnt its lesson; and the consumer had learnt that he need not buy.

Mr Trudeau commented that people did not seem to hold off buying Japanese cars.

Mr Suzuki (Japan) said that the Summit countries should be ready to adopt a policy of concerted intervention in the exchange markets. If we announced that that was what we were going to do, it would be good for stability and confidence.

M Martens (Belgium - European Community Presidency) said that he would like to raise one or two points which had come out of the last meeting of the European Council. First, the Council had expressed general concern at the current international economic situation. The problem of unemployment would be overcome only if countries all took co-ordinated action, with the agreement of management and labour. He hoped that Government intervention of this kind could be limited, but it would be necessary to achieve social consensus. Action of this kind would support democratic values and international credibility. Second, the European Council saw value in under-scoring our positive achievements, for example, the fight to control inflation, and the reduction of energy dependence. Third, the European Council had identified a number of barriers to economic improvement. It had felt that the Economic Summit should give a decisive impetus to the efforts to achieve a durable decline in interest rates, greater exchange rate stability and improved North/South relations. Real interest rates contributed to unemployment and made it more difficult to service public debt. It should be an absolute priority to reduce budget deficits on both sides of the Atlantic.

We should also do what we could to foster orderly arrangements in the international markets by co-operation between the monetary authorities in North America, Japan and the European Community. The EMS was already making a contribution to stability.

He had a few frank words to say to Japan. She should pursue exchange and trade policies which were more compatible with the fair distribution of burdens in the industrialised world. He was glad to hear what Mr Suzuki had said about the measures which his Government had taken in this respect and especially the reliance they were proposing to place on domestic demand rather than export growth.

The European Community should and could achieve greater convergence of economic policies, particularly in order to encourage investment and to increase the employment of young people. The focus should be on investment at the expense of consumption.

Finally, he wished to emphasise the need for greater stability of the exchange rates so as to encourage trade. That must result from a greater convergence of economic policies and a joint effort towards economic recovery. The European Community ruled out the use of exchange rates to achieve a competitive advantage. But we should be prepared to intervene in the currency markets to counter movements which were not objectively justifiable.

The Prime Minister said that inflation and unemployment were alternatives only in the very short-term and only in certain sectors. Deficit financing would not deal with unemployment which resulted from changing patterns of trade or from higher productivity or from failure to invest in the products of tomorrow. Any short-term gains were achieved only at the cost of greater unemployment in the longer term, as was shown by the British experience in the period 1972-77. Inflation as a policy for curing unemployment was not acceptable: it would be a positively immoral policy, for it would steal something from every pound or dollar saved. The control of inflation helped to reduce unemployment except in the very short run. She agreed with President Reagan that Governments had not only to get their deficit down but also to adopt policies which showed that they were going to go on getting their deficits down in the future. This was important for confidence.

There were two ways of reducing a deficit - cutting expenditure or increasing taxes. Cutting expenditure was preferable, but not easy: as politicians they were all to blame for arousing people's expectations of higher living standards and not following policies that would really make it possible to achieve that goal. As regards intervention in the exchange markets, Governments could not stand in the way of large-scale movements but they could correct disorderly conditions. She was prepared to go along with global negotiations but only on terms which guaranteed the integrity of the specialised institutions, and notably the IMF, the IBRD and the GATT.

Finally, she wished to emphasise again that we would get the steady creation of new and lasting jobs only if we held down inflation and cut budget deficits. It was all a matter of whether our people could bear the burdens we imposed on them.

Mr Trudeau said that he agreed absolutely that in the long run you could not reduce unemployment except by controlling inflation. The question was whether it was possible to sustain the control of inflation.

The Prime Minister said that she was sure that this could be done, provided Governments stuck to the right policies.

Mr Suzuki said that Japan's 90 per cent dependence on imported oil for energy had affected their prices, but they had got by by using technological development to offset this handicap. Their favourable economic performance was the result of the steadfast behaviour of the Japanese public. When the economy had been stagnant, the Government had taken a positive view of public investment which had led to a very high level of public sector borrowing and reliance on Government funds. The degree of public sector deficit was still very high and so Japan was trying to reduce Government expenditure while, thanks to growth in the private sector, the economy ran at levels which made it possible to keep relatively low interest rates. Japan intended to maintain a sound fiscal stance. She would continue to put the emphasis on domestic demand.

Chancellor Schmidt (Germany) said that nobody who knew him would expect him to defend inflation. The highest level Germany had ever had was 7 per cent and that was 8 years ago. It was well down now. But we should not concentrate solely on inflation. Inflation pre-dated the surges in oil prices. It started with American financing of the Vietnam war. In 1972 Bretton Woods had been abandoned; the dollar was devalued; and the fixed rate system had been dropped. The abandonment of this discipline allowed all Governments to lapse into the printing of money - enough money to pay for the quadrupling of oil prices in 1973/74. In order to restore monetary discipline some of us wanted to get back to fixed exchange rates. That was the motivation for setting up the EMS. The purpose of the EMS had been to provide a discipline and not to spend members' reserve supporting their own and other people's currencies. He did not believe in intervention against the intentions of the markets. The United States had not been asked to go back to fixed parities but to adjustable parities. They had been asked to agree to intervene to prevent disorderly movements. Why had the dollar's value gone up again? The answer was that in April the market had expected agreement on the US budget and a consequent fall in interest rates; but in May it was realised that there would not be any agreement and so expectations of reduced interest rates disappeared; and so people were happy to invest in the dollar where they could get 7 or 8 per cent real interest. This led to the value of the dollar going up again not as a reflection of the basic position of the US economy but as an expression of expectations about interest rates. The conclusion he drew from this was that intervention should not be used to support a currency at great cost but simply to smooth disorderly movements. The present instability of exchange rates would frighten traders away from the United States to France and Germany where there was greater stability. The Europeans could live with this instability relatively easily, but the smaller and poorer countries could not. He believed that part of the blame for the present instability lay with the fluctuations which resulted from the publication of weekly money supply figures. If the dollar was more stable, there could be greater co-operation between the United States and Europe. The United States was so strong that they had to bear the responsibility. The world should become a little more dependable and calculable.

President Reagan said that, even if US interest rates went down, that was no panacea. He agreed about intervening in disorderly markets. The weekly money supply figures came from the Federal Reserve Bank which was independent of the US Administration, and which could not be given orders. But he would pass Chancellor Schmidt's views on to them. He agreed that inflation began to accelerate when President Johnson tried to have both guns and butter. He remembered saying 25 years ago that there was no such thing as maintaining a little inflation. Sooner or later it got out of hand. Now we had had the longest period of inflation ever. We should be very careful about the ways in which we stimulated employment. The United States had a job creation scheme, most of the cost of which was the bureaucracy which ran the programme. Training on the job was best: then the man knew that there was a job at the end of the training. Governments had certain functions which they could do very well. But when they moved out to do other things which the private sector should do, they did not do so well.

President Mitterrand (France) said that no one would criticise President Reagan for being true to his own beliefs. Personal representatives would be meeting that day and next to formulate proposals on how the agreement reached at the Summit on monetary undertakings should be put into effect. A text had been prepared which he and his colleagues would need to view critically. If they agreed he would submit the text to them the following morning.

There was then some discussion of the text in its current draft form. The Chancellor of the Exchequer pointed out that Finance Ministers had not completed their discussion of the document, and he proposed that they should do so that evening.

After further discussion, President Mitterrand said that it was agreed that Ministers of Finance should consider the text further and that it should then be sent to personal representatives for them to put it in its final form. He suggested that the meeting should move on to consider trade issues.

World Trade

M. Thorn (European Community) said that it was important that a signal went from the Economic Summit making it clear that the countries represented there gave the highest priority to the maintenance of the open multi-lateral trading system. The forthcoming GATT Ministerial meeting would be a crucial occasion, particularly following a year of no growth in world trade. He thought that there were three major problems that had to be tackled. First, there was the accumulation by Japan of a persistent large trading surplus. This did not mean that the European Community proposed to close its borders. Nonetheless, movement should not be one way only. Japan should open its borders more widely. Japan's recent measures showed that they were alive to the problem, but more progress still was needed. Second, trade tension had increased between the United States and the Community, particularly in steel and agricultural products. Every effort should be made to lower the temperature before the GATT Ministerial meeting. Finally, the industrialised world had to help the growth of the LDCs by taking more of their imports. Most of the countries attending the GATT Ministerial meeting would be from the third world, and they would be encouraged if they thought that the industrialised countries were not going to let them move into further recession.

Mr Suzuki said that he wanted to make Japan's policies absolutely clear. The reason why the present trade frictions had assumed such large proportions was the state of the world economy. What was most important was to re-vitalise the world economy and to co-operate more fully in doing so. Since the end of 1981 his Government had introduced two packages of measures to open up the Japanese market. For example, they had made tariff reductions and introduced a trade ombudsman. A further accelerated reduction of tariffs was included in the second set of measures. The Japanese Government had taken all these steps without asking other countries to do the same. He was often told that Japan did not import very much. He conceded that this appeared to be so in relative terms because Japan had to import 99 per cent of her energy requirements, but in absolute terms imports were not small. He thought that the problem could be eased by work in GATT on trade in services and on investment. Japan would co-operate fully in any such work.

Count Lambsdorff (Germany) said that the Federal German Government welcomed the second Japanese package as a step in the right direction. He hoped that it would not be the last. He was glad that the Japanese Government had asked its people to take a more positive and receptive attitude to goods imported from abroad. But there was still more that they could do by way of increasing trade. It was far better to solve the problem that way than by other countries imposing trade restrictions. The multi-lateral GATT system had to be maintained and expanded. He agreed about the importance of the forthcoming Ministerial meeting. It must come to grips with current trade distortions and deal with the problems of trade in services, however difficult that might be. The meeting would also have to tackle the current problems between Europe and the United States. On steel, the US Department of Commerce would be taking a decision about countervailing duties on 10 June, and it would obviously not be helpful if that decision was inconsistent with what emerged from the Economic Summit. There must be agreement not only between the Community and the US Government but also between the Community and the US steel industry. As regards imports from third world countries, the Federal Republic thought that aid was important but trade far more so to these countries. The OECD had not been able to agree on the renewal of the trade pledge. If it were not renewed there would be a catastrophic deterioration of export credit conditions. There must be an agreement in the Seven about this. He thought this should be possible, judging by the discussions over lunch. Putting the Soviet Union in the top category would help considerably.

Mr Reagan (United States) said that the United States believed that the multi-lateral trading system had been the principal engine of growth. It was up to the Seven to defend the system and to set goals for it. They should ratify the OECD compromise proposal on export credits. They should complete the Tokyo Round. The problem of services, which was of enormous importance to the United States, had to be addressed. International rules for investment also needed attention. Work should begin now on all these issues so that the results could be considered at future Summits. He hoped the GATT Ministerial meeting would take concrete steps in these directions.

M Jobert (France) said that it was important to distinguish between two levels of problems. First, there were immediate difficulties such as trade relations with Japan. We had to accept that the Japanese position had evolved and that Japan was now more open. We could not expect results overnight. We should hope for more progress in extending mutual trade in a friendly spirit. Second, there were pressures for making fundamental changes in the basis of international trade. The United States in particular had been advocating a radical approach. He did not object to considering proposals for the complete overhaul of the trading system, but it was important to make sure that what we already had worked properly before going on to adopt new ideas. For example, before tackling the problem of trade in services, we should remove the barriers to trade in products. We should take a ten-year perspective and not try to do in one year all the things that formed a ten-year programme.

President Mitterrand then brought the second session to a close.