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Ref. A05248

PRIME MINISTER

I do not think you need
so more than glance at this for
the moment. The briefing meeting is on
Thursday evening but you would probably
delay detailed study until Saturday.

Ottawa Economic Summit

Print 13/7

Personal Representatives held their final preparatory meeting for the Economic Summit last week, from 6th to 8th July, at Chateau Montebello, the hotel (former country club) between Ottawa and Montreal where the Summit meeting itself is to be held. The meeting was preceded by a meeting of political representatives, at which we were represented by Sir Michael Palliser and Mr. Wade-Gery. Sir Michael Palliser and Sir Kenneth Couzens were with me for the meeting of Personal Representatives.

2. The Japanese were extremely reluctant to contemplate the inclusion of any purely political matter in the communiqué, but were more relaxed about the idea of a statement on political questions to the press by the Chairman of the Conference (Mr. Trudeau) on the evening of Monday, 20th July. I attach at Annex A the present draft of the statement. It could of course be included as part of a communiqué at the end of the conference, if that was how you and your colleagues eventually decided to proceed. It was agreed that it would probably not be necessary to have a formal declaration (like last year's on Afghanistan) unless by the time of the Summit the Russians had intervened in Poland.

3. The last three years' Summits have all produced declarations on hijacking and terrorism, beginning with the Bonn declaration of 1978 on hijacking. There have been discussions with our Summit partners about having a similar declaration this year. The Bonn declaration included provisions for sanctions (an airline boycott) against countries who harboured or assisted or failed to deal acceptably with hijackers. The behaviour of the Government of Afghanistan in the episode in which a Palestinian Airlines (PIA) aircraft was hijacked certainly qualified for the application of those sanctions. Six of the seven Summit countries are prepared (some more reluctantly than others) to agree to a declaration at the Ottawa Summit which condemns hijacking and says that the sanctions in the Bonn

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declaration should be applied to Afghanistan. The French Government have not been prepared (either at expert level or at Personal Representative level) to agree to apply the sanctions to Afghanistan; they say that there are juridical difficulties in overriding the air service agreements they have with Afghanistan. The Canadians and we argue that, if we are not all prepared to invoke the Bonn declaration in a case in which it is unquestionably applicable, there had better be no statement from the Ottawa Summit: that would be better than a statement which, by confining itself to generalised condemnation and conspicuously failing to invoke the sanctions in the Bonn declaration, drew attention to our unwillingness to back up our words with deeds.

4. I understand that diplomatic pressure is being brought to bear upon the French to come into line with the rest of us. If that is successful, or if you and your colleagues can manage to persuade the President of the Republic at Ottawa, there will be an agreed text of a declaration available for consideration
____ (Annex B).

5. At the last moment of our meeting last week the Italians produced a draft of their own on terrorism (attached as Annex C). The Italian Government would like support from the Summit in their own fight against terrorism in Italy. The rest were sympathetic, but there was no time to consider the draft. It was left that the Canadians would discuss the drafting with the Italians, and would circulate a revised text for consideration at the Summit. I would guess that the Italians will attach more importance to having some sort of declaration than to its precise content. Given the problem they have, I would hope that their partners would be willing to meet them on this, and to agree to a declaration, if an acceptable text can be agreed.

6. Personal Representatives discussed the order of business for the Summit. It was agreed that Heads of State or Government would want to have an informal and unstructured discussion, without notetakers, at dinner on their first evening, Sunday, 19th July. They will be able to resume that discussion at lunch on Monday, 20th July and on the evening of that day. They could of course decide to have some of their formal sessions on their own, without other Ministers; but

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the general presumption was that, after a short session first thing on Monday, 20th June to agree the business, they would sit in plenary session to discuss:

- (i) the international economic and financial situation (Monday morning);
- (ii) relations with developing countries (Monday afternoon).

If it is agreed that Mr. Trudeau should make a statement to the press on political matters on Monday evening, Heads of State or Government will probably want to have a session with Foreign Ministers only in the latter part of Monday afternoon. Finance Ministers could meet separately, or could enjoy the amenities of the place (e. g. golf and swimming).

7. Personal Representatives considered a redraft of the report to Heads of State or Government on aid policies and practices commissioned by the Venice Summit. The redraft, prepared by the Canadians, was much better than its predecessors. It remained long, however; and, while it was not seriously objectionable, it was not the document which any of us on our own would have produced. Rather than spend a lot of time trying to reach full agreement on it - which would have taken a long time - we agreed to let the report pass as it stood, with a caveat making it clear that we were not all equally supportive of each conclusion, and we concentrated on the preparation of draft communiqué language. The report is available if you want to read it in full; for present purposes I attach a summary (Annex D).

8. As to the draft communiqué language, we agreed that it would be useful for us to have texts available as a basis for our work at the Summit, and we reached agreement on a set of texts for this purpose. Obviously, however, Heads of State or Government are not committed to them, and they can be modified or rejected at the meeting, as you and your colleagues will.

9. The drafting had been parcelled out amongst us; and Sir Kenneth Couzens and I took on the section on the international economic and financial situation. We started with a short four-paragraph piece; I am afraid that the amendments and additions proposed (notably by the Germans) and accepted have lengthened it somewhat, but it remains an agreed text.

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10. The section on relations with developing countries is also a little longer than it need be; but it too is an agreed text, save for the paragraph (paragraph 2) on the global negotiations.

11. Other sections are reasonably short; and, even if the whole thing were adopted as it stands, the communiqué would be considerably shorter (and better) than the Venice communiqué, and than most of the previous Summit communiqués. The various sections of draft communiqué language are attached as Annex E.

12. Personal Representatives have also agreed a note on the future of Economic Summits for submission to Heads of State or Government (attached as Annex F). This is an agreed paper, drafted by the United Kingdom Personal Representative.

13. On substance, there was great emphasis on the need for the Summit countries to be united in their objectives and messages of hope, both on the international economy and on relations with developing countries. But there are of course differences, to be sorted out or papered over at the Summit if a reasonably united position is to emerge.

14. As you might expect, concerns about unemployment loomed larger in our discussions of the international economic and financial situation this year than they did last year. But everyone (including the French Personal Representative) accepted that the reduction of inflation remained the highest priority, and agreed that it was not possible to secure a soundly based recovery of employment without a reduction of inflation, though the French representative argued that the reduction of inflation was a necessary but not sufficient condition of a reduction of unemployment. We agreed that the two tasks should be given equal priority and pursued simultaneously, even though the results on unemployment would come through more slowly than those on inflation.

15. We got the impression that at next week's Summit we need not expect an outright attack on American monetary policies. Neither the Germans nor the French expect the United States Government to change direction overnight. But

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they remain concerned about the effects of the level and volatility of United States interest rates on European economies and exchange rates, and I think we can expect the Federal Chancellor and the President of the French Republic to urge the President of the United States to consider the scope for reducing the dependence on interest rates as a means of containing the growth of money supply by looking to other techniques of monetary management and a different fiscal policy mix (i. e. a smaller budget deficit), and to consider intervening in the exchange market. My German colleague will no doubt have reported to the Federal Chancellor the forecast he had just heard in New York (where there is considerable scepticism about the Administration's economic and monetary policies): that United States interest rates are not likely to come down during the summer, and may well move up to around 25 per cent by the winter.

16. On relations with developing countries, we avoided any general commitment to increase aid levels; and there was general agreement to concentrate official development assistance to the greatest possible extent on the poorest developing countries. The main points of difference were:

(i) The Energy Affiliate

All of us were agreed upon the need to increase aid for energy development in the ldc's, and to encourage the OPEC countries to provide more funds for this purpose. The continental Europeans, the Canadians and the Japanese favour an IBRD energy affiliate; the United States do not. But the Summit will not have to resolve this difference, and there is an agreed text on this subject in the relevant section of draft communiqué language.

(ii) The Global Negotiations

The Europeans, the Canadians and the Japanese could agree on the language adopted in the Presidency's declaration after the last meeting of the European Council:

"The European Council was of the opinion that the preparations for the new round of global negotiations should be completed as soon as possible. It emphasised the crucial importance of a positive impetus to be given to this effort by the Summit Conferences in Ottawa and Cancun".

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The United States did not wish to commit themselves "to participate as soon as possible in efforts to reach an agreed basis for launching" the Global Negotiations, not least because they do not want this to be the main subject for discussion at Cancun. This difference is reflected in alternative texts of paragraph 2 of the draft communiqué language on relations with developing countries (the First Alternative reflecting the point of view of the Europeans, Canadians and Japanese, and the Second Alternative that of the United States).

17. On trade, we were able to agree upon a reaffirmation of the commitment to liberal trading policies and the open multilateral trading system. The representative of the European Commission, supported by us as the Presidency and by the French and the Italians, but not (I regret to say) by the Germans, sought the inclusion in the draft communiqué language of words about the need to avoid disruption by the concentration of exports in specific markets and in narrow sectors through appropriate international co-operation. Not surprisingly the Japanese, supported by the United States and Canada, were not prepared to go beyond a reference to the safeguard measures provided for in the GATT. There are therefore alternative texts in paragraph 5 of the draft communiqué language on trade.

18. There is not likely to be much discussion on energy at the Ottawa Summit. Acceptable draft communiqué language has been agreed, including references to the need for better progress on the development of coal and nuclear energy.

19. The United States circulated at our last meeting a discussion paper on East-West economic relations (Annex G). By this meeting they had turned this essay into a paper of questions, which looked for all the world like an examination paper (Annex H). They hope for some discussion of the subject at the Summit, and would like a brief reference in the communiqué, but they see this paper as the beginning of a longer debate, and are not looking for conclusions or commitments. The agreed draft communiqué language (a British condensation of a longer American draft) was acceptable to the German representatives, but the French representative, being without instructions, entered a reservation.

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20. On the future of economic summits, the general expectation was that Heads of State or Government should, and would want to, continue to meet about once a year. The Ottawa Summit will mark the completion of the first round of summits. The first summit was held at Rambouillet, and it was clear that the French representatives were expecting their President to invite his colleagues to France in about a year's time.

21. This presents a problem for the Community representatives. In order to meet the susceptibilities of the smaller members of the Community, the President of the European Commission has been invited to attend all Summit meetings so far (on the understanding that he can be excluded if and when matters not within Community competence are discussed), and the Presidency at the Council of Ministers has been represented in the preparatory discussions. Thus for the first six months of the year a Dutchman participated in the meetings of Personal Representatives, though he was not at our latest meeting, the Netherlands by then having handed the Presidency on to us. But it has always been possible to arrange the Summits themselves for dates when one of the four Community partners in the Summit was in the Presidency of the Community, and it has not been necessary to consider inviting to the Summit the Head of Government of one of the smaller Community countries as the President pro hac vice of the European Council.

22. In 1982 Belgium holds the Presidency for the first six months, and Denmark for the second. If the next Summit is to be held in about a year's time, as would be the normal pattern, it will be necessary either to invite the Belgian or Danish Prime Minister to attend as President of the European Council or to reach agreement in the Community that the Presidency should be represented by one of the four big Community countries attending the Summit in their own right.

23. The Italians were particularly anxious to avoid having to invite the Prime Minister of one of the smaller Community members to the Summit; and it was suggested that one possible course might be to postpone the next Summit until the first half of 1983, when the Federal Republic of Germany will be in the Presidency. But the non-European members of the Summit were not keen on that;

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the Japanese in particular said that Japan would not take kindly to the postponement of the Summit from its normal time just because the Europeans could not resolve this internal problem. In any case this would be only a short-term solution of a problem which is liable to recur every time we have a succession of two or more smaller powers in the Presidency, and will be aggravated with the accession of Portugal and Spain.

24. These considerations led Personal Representatives to the view that the timing of next year's Summit should be determined without reference to the succession of the Presidency in Europe, and that, if Heads of State or Government decided that the next Summit should be held in about a year's time, the Community would have to decide how to accommodate to that. There are various possible solutions:

- (1) to invite the Belgian or Danish Prime Minister (whichever is President of the European Council at the time);
- (2) to invite the host country (assuming that to be France) to represent the Presidency;
- (3) to adopt a modified version of the "troika" arrangement practised in the early stages of the Middle East initiative, and to invite either the immediately foregoing President of the European Council (the Prime Minister of the United Kingdom) or the immediately following President (the Chancellor of the Federal German Republic) to represent the Presidency.

25. As we are currently in the Presidency, we should take the lead in discussing possible solutions with the French, Germans and Italians. A decision should be reached at the next meeting of the European Council. We can take it, I think, that the non-European members of the Summit will fall in with whatever solution the Europeans agree upon.

26. Finally, a pre-Summit conference of non-governmental experts has as usual been held. I attach the report on the conference (Annex J). The United Kingdom was represented by Sir Terence Beckett, Mr. David Watt and Mr. Samuel Brittan. All participated in the discussion but Mr. Brittan did not feel that he could subscribe to the report.

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27. I am sending copies of this minute and its Annexes to the Foreign and Commonwealth Secretary, to the Chancellor of the Exchequer, and to the Secretaries of State for Trade and Energy.

REA

ROBERT ARMSTRONG

13th July, 1981

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ANNEX A

DRAFT OF PROPOSED STATEMENT TO THE PRESS BY MR TRUDEAU
AS CHAIRMAN OF THE SUMMIT ON POLITICAL QUESTIONS

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CHAIRMAN'S SUMMARY OF DISCUSSION
OF POLITICAL ISSUES

(This version represents the outcome of the discussions on Sunday and Monday, modified by the addition of suggestions subsequently submitted by the Japanese delegation. Changes suggested by the Japanese delegation are underlined.)

1. We all view with concern the continuing threats to world peace. Lasting peace can only be built on respect for freedom and dignity of nations and individuals. We appeal to all governments to exercise restraint and responsibility in international affairs and to refrain from exploiting crises and tensions.

/Original version/

2. In East/West relations, we are seriously concerned by the international political activities of the Soviet Union and the excessive buildup of Soviet armaments. We will be firm in insisting on political and military balance. We will also be prepared for dialogue and cooperation if Soviet actions make these possible. But we reject any conduct which undermines the fabric of international society.

/Japanese version/

2. In East/West relations, we are seriously concerned with the recent excessive buildup of Soviet armaments. /We will be firm in insisting on military balance./ However, we will also be prepared for dialogue and cooperation under mutually acceptable terms.

/Alternative proposed by A.E. Gottlieb/

2. In East/West relations, we are seriously concerned with the continuing buildup of Soviet armaments. We are concerned as well by Soviet actions that are incompatible with the exercise of restraint and responsibility in international affairs. We will be firm in insisting, therefore, on military and political balance. Equally, we will be prepared for dialogue and cooperation under mutually acceptable terms.

3. On the question of Afghanistan, in spite of the fact that we publicly stated our firm and unanimous position at last year's Venice Summit, the situation remains unchanged. Therefore, with the overwhelming majority of nations, we continue to condemn the Soviet military occupation of Afghanistan. We support international efforts to achieve the complete withdrawal of Soviet troops and to restore to the Afghan people their right to determine their own future. We reaffirm our conviction that respect for independence and genuine non-alignment are important elements of international peace and security.

4. Together with regional organizations or states, we are resolved to do what is necessary to ensure a peace built on the independence and dignity of sovereign nations. All peoples should be free to chart their own course without fear of outside intervention. To that end, we are determined to promote peaceful resolution of disputes and to address underlying social and economic problems.

5. Recalling the Statement on Refugees adopted at the Venice Summit, we are seriously concerned over the growing plight of refugees throughout the world. We reaffirm our support for international relief efforts and our appeal to all governments to refrain from actions which can lead to massive flows of refugees.

Note: Possibly another paragraph on Kampuchea will need to be added depending on the outcome of the UN Conference. 7

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ANNEX B

DRAFT DECLARATION ON HI-JACKING

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OTTAWA SUMMIT STATEMENT ON HI-JACKING

The Heads of State and Government, seriously concerned with the continuation of acts of violence and terrorism, in particular aircraft hijacking, hostage-taking and attacks against diplomatic and consular personnel and premises, reaffirm their determination vigorously to combat such flagrant assaults on human dignity and life. Emphasizing that all countries are threatened by acts of terrorism in violation of the basic principles of international law and in disregard of fundamental human rights, they resolve to strengthen and broaden action within the international community to prevent and punish such acts.

[The Heads of State and Government view with particular concern the recent hijacking incidents which threaten the safety of international civil aviation. They recall and reaffirm the principles set forth in the 1978 Bonn Declaration and note that there are several hijackings which have not been resolved by certain states in conformity with their obligations under international law. They call upon the governments concerned to discharge their obligations promptly and thereby contribute to the safety of international civil aviation.]

[The Heads of State and Government are convinced that, in the case of the hijacking of a Pakistan International Airlines aircraft in March, the conduct of Afghanistan, both during the incident and subsequently in giving refuge to the hijackers, was and is in flagrant breach of its international obligations under the Hague Convention to which Afghanistan is a party, and constitutes a serious threat to air safety. Consequently the Heads of State and Government propose to suspend all flights to and from Afghanistan in implementation of the Bonn Declaration unless Afghanistan immediately takes steps to comply with its obligations. Furthermore, they call upon all states which share their concern for air safety to take appropriate action to persuade Afghanistan to honour its obligations.]

[Recalling the Venice Statement on the Taking of Diplomatic Hostages, the Heads of State and Government approve continued cooperation in the event of attacks on diplomatic and consular establishments or personnel of any of their governments. They undertake that in the event of such incidents their governments will immediately consult on an appropriate response. Moreover, they resolve that any state which

directly aids and abets the commission of terrorist acts condemned in the Venice Statement, should face a prompt international response. It was agreed to exchange information on terrorist threats and activities, and to explore cooperative measures for dealing with and countering acts of terrorism, for promoting more effective implementation of existing anti-terrorist conventions, and for securing wider adherence to them.]

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ANNEX C

ITALIAN DRAFT DECLARATION ON TERRORISM

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The Heads of State and Government, having reviewed with concern the growing incidence of terrorist violence which endangers human rights and the fundamentals of freedom of peoples, have reiterated their commitment to take effective measures for the prevention and suppression of all acts of terrorism.

Convinced that the struggle against terrorism, irrespective of its origins, motivations and aims, is a primary duty of all states and that only the unanimous commitment in this direction and the respect of international obligations can contribute to eliminate its political and economic roots, they have expressed their deepest condemnation for any form of support or approval given by Governments to terrorism and to terrorists. They have, therefore, undertaken to establish mechanisms in order to improve their consultation and co-operation on appropriate political and economic action against states which aid and abet terrorism.

They have also instructed their Foreign Ministers to single out at all appropriate levels, concrete forms of co-operation among the seven countries, under the aegis of the Summit in order to reinforce the struggle against international terrorism. This co-operation will aim at exploring: A) how to simplify the exchange of operative information, in conformity with national legislations and existing international instruments: B) ways by which additional states can be urged to become parties to the conventions dealing with terrorist acts: C) the adoption of new international instruments against terrorism.

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ANNEX D

SUMMARY OF REPORT BY
PERSONAL REPRESENTATIVES
TO HEADS OF STATE OF GOVERNMENT
ON THE AID STUDY

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1. The personal representatives were asked at Venice to review aid and other contributions to developing countries. These findings are presented in the form of suggested objectives and policies which summit countries should pursue. While individually they are not equally supportive of each of the conclusions, they are agreed upon the need to give greater attention to the management of our relations with the Third World, and upon the general approach suggested by the report.

Analysis

2. In a rapidly changing and increasingly interdependent world, the developing countries individually and collectively are becoming more important actors.

3. Pressures on the functioning of the international economic system will increase for a large number of reasons, and neither in industrial nor in developing countries can medium-term growth prospects be expected to be such as to ease these pressures.

4. Our political, security and economic interests, as well as our environmental and humanitarian and cultural concerns, are increasingly interwoven into a complex pattern of relationships with the developing world.

Objectives

5. The growing importance of developing and industrial countries to each other demands a more active approach to north/south issues and a more coherent set of policies towards developing countries based on common objectives.

6. Industrial countries have a fundamental responsibility to their own people to keep themselves strong and to grow. However, macro-economic policies which set the stage for higher economic growth rates and a more stable price environment contribute to developing countries and thus complement official aid. The following set of common objectives is suggested -

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- To encourage developing countries to play a larger part in the international economic system and to become more fully integrated into it;
- to promote their development;
- to strengthen co-operation with developing countries so that our development efforts will be more effective;
- mm* - to seek closer co-operation with the oil producers to help meet the world's energy needs; - *there is a glut of oil at present.*
- to maintain the strength of international institutions;
- to promote genuine independence and stability in the Third World, immunizing it from East/West contention;
- to maintain that the Soviet Union has a responsibility to assist the economic development of the developing countries but should respect their independence and non-alignment;

Policy Mechanisms

7. The following steps may help to increase confidence and make the dialogue more productive -

- working with the south to select an appropriate set of issues for practical negotiations, avoiding confrontation and seeking positive recognition for our record of co-operation;
- making clear that we cannot provide aid where developing countries pursue policies inimical to our deep interests;
- supporting both bilateral and multilateral aid channels.

8. We have not reached a consensus on attitudes we should take towards global negotiations and our report refers the question to leaders.

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9. The following substantive measures are recommended -

- give higher priority to the energy and food sectors, as well as to problems of population growth, and help meet basic human needs of populations;
- improve the energy supply of the non-oil developing countries and help them develop their indigenous resources. (We are not agreed however on attitudes towards a world bank energy affiliate or expanded lending programme.);
- undertake urgent steps to accelerate food production in developing countries and to cope with food shortages;
- urge developing countries to place greater emphasis on population projects and increase our assistance for them;
- make best efforts to increase levels of and where possible, to give priority to the poorest countries in our programmes, and to improve the quality of our aid;
- undertake steps to facilitate private investments;
- foster the smooth functioning of stable capital markets;
- support the international financial institutions, ensuring they have the financial resources to carry out their important tasks;
- maintain a liberal and open international trade environment and take steps to promote trading relationships with developing countries;
- reaffirm our intention to deal with refugee problems and the causes;
- consider further steps to place ODA flows on a more predictable basis.

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ANNEX E

DRAFT TEXTS AGREED BY PERSONAL REPRESENTATIVES AS A BASIS
FOR PREPARING THE COMMUNIQUE OF THE OTTAWA SUMMIT

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I INTRODUCTION

1. We met at a time of intense change and challenge, with serious economic difficulties and increased international political dangers confronting our societies, and all countries of the world, both developed and developing. For several of us, it was the first occasion to meet each other, and for us all it served to underline the strength of our common bonds - of values, of interests, and of aspirations.

2. As leaders of major industrial democracies, we welcomed this opportunity to consult on global economic issues. In the years since the first Summit meeting in 1975 our countries have encountered persistent and deep-seated economic problems. The realities of interdependence require that we tackle these problems in a spirit of shared responsibility, both among ourselves and with our partners throughout the world, and that we take into account the effects on others of policies we pursue. In shaping our long term economic policies care should be taken to preserve the environment, the ecology and the resource base of our planet.

3. We also recognise that economic issues both reflect and affect the broader political purposes we share. We have therefore discussed the relationship between the two overriding concerns before our countries: the challenge to world economic progress and the challenge to world peace.

II . THE ECONOMY

1. The primary challenge we addressed at this meeting was the revitalization of the economies of the industrial democracies. In the year since the Venice Summit, the adjustment to the energy price rise of 1979 has in important respects been better managed than was the case in the middle 70s. The fight against inflation has been pursued with determination and the average rate of inflation has fallen. Energy use and oil dependence have been reduced. Growth in the two years 1980 and 1981 will be higher on average than in 1974 and 1975 in the industrial countries, while inflation is likely to be lower. Growth has been better maintained in the developing countries than in the industrial countries. The large balance of payments deficits which the energy price increase produced have so far been financed in both developed and developing countries at substantial costs but without imposing intolerable adjustment burdens.

2. On the other hand the experience of individual countries has differed within this broad picture. In four of our seven countries inflation remains in double figures. In many countries unemployment has risen sharply and is still rising. There is a prospect for moderate growth in the coming year but at present it promises little early relief from unemployment. Balance of payments surpluses and deficits originating in the oil price increase are likely to persist for some time. Interest rates have reached record levels in many countries. If long sustained at these levels they would threaten productive investment and impose heavy burdens particularly on deficit countries, developed and developing.

3. We are agreed that the fight to bring down inflation and reduce unemployment must be our highest priority. We are agreed too that these linked problems must be tackled at the same time. We must continue to reduce inflation if we are to secure the higher investment and sustainable growth which are necessary preconditions of the durable recovery of employment. To reduce unemployment and to improve the ability of our economies to adapt to change requires the balanced use of a range of policy instruments. We have to convince our peoples and especially the social partners of the need for change: change in expectations about pay and conditions, and about the policy environment in which decisions on both pay and prices have to be made, change in management and labour practices, change in the pattern of industry, change in the direction and scale of investment, and change in energy use and supply.

4. We need urgently to reduce public borrowing; where our circumstances permit or we are able to make changes within the limits of our budgets, we will increase support for productive investment and innovation. We have also to accept and strengthen the application of market disciplines throughout the economy, including heavy reliance on the price mechanism to conserve energy. And we must not let transitional measures that may be needed to ease change become permanent forms of protection or subsidy.

5. We see low and stable monetary growth as essential to reducing inflation. Interest rates have to play their part in achieving this and are likely to remain high where fears of inflation remain strong. But we are acutely aware that levels and movements of interest rates in one country can make more difficult stabilization policies in other countries by influencing their exchange rates and their economies. For these, as much reliance as possible should be placed on restraint in government expenditure and containment of budgetary deficits. It is also highly desirable to minimize volatility of interest rates and exchange rates.

6. In a world of strong capital flows and large deficits it is in the interests of all that the financial soundness of the international banking system and the international financial institutions be fully maintained. We welcome the expanded role of the IMF in financing balance of payments deficits on terms which encourage needed adjustment.

III RELATIONS WITH DEVELOPING COUNTRIES

1. We support the stability, growth, independence and genuine non-alignment of developing countries. We recognize the reality of interdependence and reaffirm our commitment to co-operate and to strengthen our relations with developing countries in a spirit of mutual interest, respect and benefit. We look to them to play a full part in the international system commensurate with their capabilities and responsibilities and to become more fully integrated in it.

2. (First Alternative) [We look forward to constructive and substantive discussions with them, individually and multilaterally; particularly at the Cancun Summit. We reaffirm the positive spirit we expressed at Venice towards the prospect of Global Negotiations, subject to mutually satisfactory agreement on procedures and agenda, and are willing to participate as soon as possible in efforts to reach an agreed basis for the launching of such Negotiations.] ✓

2. (Second Alternative) [We look forward to constructive and substantive discussions with them, individually and multilaterally. The Cancun Summit offers an early opportunity to address our common problems in a new light. Further, recalling the positive spirit expressed at Venice towards the prospect of Global Negotiations, subject to mutually satisfactory agreement on procedures and agenda, we reaffirm our willingness to explore all avenues of consultation and discussion with developing countries in whatever forums may be necessary.]

3. We are deeply conscious of the serious economic problems in many developing countries, and the grim poverty faced especially by the poorer among them. We remain ready to support their efforts to promote economic and social development since these efforts are vital to their success.

4. We are committed to maintaining substantial and, in many cases, growing levels of ODA, and will seek to increase public understanding of this policy. We will allocate the major portion of our aid to poorer countries and we will participate actively in the United Nations Conference on the Least Developed

Countries. It is important to emphasize that the strengthening of our own economies, increasing access to our markets, and removing impediments to nonconcessional and private capital flows contribute much larger amounts of needed resources and technology to developing countries and thereby complement official aid.

5. The Soviet Union and its partners, whose contributions are meagre, should make more development assistance available, and take a greater share of exports of developing countries, while respecting their independence and non-alignment.

6. We support the crucial role played by the International Financial Institutions. We will maintain a strong commitment to those bodies, and work to ensure that they have, and use effectively, the financial resources necessary for carrying out their important responsibilities and for encouraging sound policies in member countries.

7. We attach high priority to the resolution of the problems created for the non-oil developing countries by the damaging effects on them of high costs of energy imports following the two oil price shocks. The surplus oil-exporting countries have, with us, a large stake in the resolution of these problems. We call on them further to broaden their valuable efforts to finance development in non-oil developing countries, especially in the field of energy. We stand ready to co-operate with them for this purpose and to explore with them, in a spirit of partnership, possible mechanisms, such as those being examined in the World Bank, which would take due account of the importance of their financial contributions. A favourable climate for energy exploration and investment in non-oil developing countries is indispensable. We will work for practical achievements of the forthcoming UN Conference on New and Renewable Sources of Energy.

8. In view of our concerns about food shortages and malnutrition, we recognize the importance of accelerated food production in the developing world and of greater world food security; and the need for developing countries to pursue sound agricultural and food policies. We will examine ways to make increased resources available for these purposes. We welcome the emphasis being given to food-related issues within multilateral institutions, including the new facility in the IMF.

9. We recognize the need for many developing countries to deal with problems of excessive population growth, in ways sensitive to human values and dignity; and to develop human resources, including technical and managerial capabilities. We will place greater emphasis on international efforts in these areas.

IV TRADE

1. We reaffirm our strong commitment to maintaining liberal trade policies and to the effective operation of an open, multilateral trading system as embodied in the GATT. We will work together to strengthen it further in the interest of all trading countries. We reiterate our intention to implement the agreements reached in the Multilateral Trade Negotiations and invite other countries, particularly developing countries, to join in these mutually beneficial trading arrangements.

2. Any protectionist measure, whether in the form of overt or hidden trade restriction or in the form of subsidies to prop up declining industries, will not only undermine the viability and dynamism of the economies of industrialized countries but also aggravate inflation, and over time, unemployment. While we have been generally successful in resisting the growing protectionist pressures, we shall redouble our efforts to avoid the erosion of the open, world trading system and to seek positive structural adjustment to the changing global economic environment.

3. Accordingly, we see a need to take new initiatives in the field of international trade to give a new political impetus to the strengthening of the open and multilateral trading system. We welcome the proposal by the Consultative Group of Eighteen that the GATT CONTRACTING PARTIES should envisage the convening of a meeting at Ministerial level during 1982.

4. Bearing in mind in particular the need further to integrate the developing countries into the world economy, we will be prepared to co-operate with others in assuring the implementation of the Tokyo Round, and in analysing both the issues confronting the trading system and the trends and opportunities likely to emerge in the 1980s. We will also work together with the other OECD countries in their programme of study to examine trade issues.

5. We will keep under review the role played by our countries in the smooth functioning of the multilateral trading system with particular emphasis on the need to maximise the openness of markets [while allowing for the safeguard measures provided for in the GATT]. [At the same time, disruption by the concentration of exports on specific markets and in narrow sectors should be avoided through appropriate international co-operation. Within the framework of this co-operation and according to internationally established rules, a timely industrial adjustment should be sought.]

6. We endorse the accelerated efforts to conclude by the end of this year an agreement to reduce the subsidy effects of official export credit schemes since an unbridled export credit race will bring about distortion of trade.

V ENERGY

1. At Venice we set the objective of breaking the link between economic growth and oil consumption by effecting fundamental structural change in our energy economies. That change is now underway. But our countries are still very vulnerable and energy supply remains a potential constraint to revived economic growth over the decade. We must accelerate the development and use of all our energy sources, both conventional and new, and continue to promote energy efficiency and the replacement of oil by other fuels. To these ends we will continue to rely heavily on market mechanisms, supplemented as necessary by government action.
2. We are confident that, with perseverance, our goals for the decade can be achieved. We will continue to watch progress closely. In the meantime, our capacity to deal with short-term oil market problems should be improved, particularly through the holding of adequate levels of stocks.
3. In most of our countries progress in constructing new nuclear facilities is disappointingly slow. We recognize concerns about safety, health, nuclear waste management and non-proliferation but are convinced that these concerns can and will be met. We intend, in each of our countries, to encourage public acceptance of nuclear energy. We will further our efforts in the development of advanced technologies and in spent fuel management.
4. We will also take steps to realize the potential for economic production, trade and use of coal; this could include removal of impediments, and an improvement in the climate which would favour the conclusion of long-term arrangements between buyers and sellers. We will continue to do everything in our power to ensure that increased use of coal does not damage the environment.
5. The successful implementation of our energy strategy will contribute significantly to the health of the global economy. We look forward to improved understanding and co-operation with the oil exporting countries.

VI EAST-WEST ECONOMIC RELATIONS

We also reviewed the significance of East-West economic relations for our political and security interests. We recognised that there is a complex balance of political and economic interests and risks in these relations. We concluded that continuing consultations and (where appropriate) co-ordination are necessary to ensure that, in the field of East-West relations, our economic policies continue to be compatible with our political and security objectives, for example in such areas as strategic trade controls.

VII CONCLUSIONS

This and earlier Economic Summits confirm our conviction that our common problems can be resolved only through close consultation and co-operation. The resources of our democratic, free societies are equal to the tasks we face. This Summit finds us more united than ever in our perception of shared concerns and our attachment to our common values and goals. We shall move forward together and with all countries ready to work with us in a spirit of co-operation and harmony. In order to ensure the greatest possible degree of concertation of our approaches to the fundamental problems which we all face, we intend between now and our next meeting, to maintain continuing contact with each other [both directly and through our Personal Representatives] [with a view to agreeing how our consultation and co-operation can be even closer].

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ANNEX F

FUTURE OF ECONOMIC
SUMMITS

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FUTURE OF ECONOMIC SUMMITS

Note by Personal Representatives

The meeting of Heads of State or Government of Canada, France, the Federal Republic of Germany, Italy, Japan, the United Kingdom and the United States at Montebello, Canada, from 19 to 21 July 1981 will be the seventh such meeting since the first at Rambouillet in 1975. It will thus complete a cycle of annual meetings in which each of the participating countries will have hosted one meeting. Heads of State or Government will wish to take stock of the achievements of these meetings, and to consider the pattern for the future.

Review of Economic Summits

2. The Personal Representative of the Prime Minister of the United Kingdom arranged for us to be provided with a Review of Economic Summits, a copy of which is attached to this note. We commend to Heads of State or Government the conclusion, in paragraph 20, that on balance the time and effort devoted to preparing and holding the summits have been justified by the results and by the impression made on public opinion, though we also believe that there is force in the criticism that the summits have tended to lose the spontaneity originally envisaged for them and to become over-bureaucratic in their preparation.

Pattern of Future Summits

3. We think that the summits should continue. International economic and monetary problems do not seem likely to become easier for the industrialised countries to deal with over the next seven years than during the last. We believe that there will continue to be advantage, to the industrialised countries and to the seven Heads of State or Government themselves, in their gathering together at reasonably regular intervals to exchange views and to seek to ensure, not that all the seven countries are following the same policies, but that they are following policies which are based on as much agreement as possible about international economic problems and prospects, about the common interests of the seven countries

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about relations with the other groups of countries - the oil exporters, the COMECON countries and the non-oil developing countries, and about the general direction and trend of policies which is most likely to serve not only their own interests but those of the other industrial countries (who will need to be reassured that their interests are not being overlooked or overridden if the seven go forward with a second series of Economic Summits) and of the developing countries as well.

4. If Heads of State or Government agree that Economic Summits should continue, they may wish to consider the frequency of meetings. In the first cycle they have been held annually. It is for consideration whether they should be held less frequently - say, once every two years. It could be argued that, if the main concern is with long-run economic and monetary trends, meetings every other year would be sufficient. As against that, international economic events (and even national changes of policy) now move so rapidly that meetings may well need to be held annually if the benefits of working together and seeking to maintain some continuity of policy are to be realised. Another advantage of annual meetings is that a certain continuity of representation persists (though for four of the seven participants in this year's summit it will in fact be their first). If we are right in thinking, as we do, that there is much to be said for seeking to make summits less dramatic and to encourage public opinion not to expect too much from them, then there is much to be said for continuing the pattern of meeting roughly - not necessarily exactly - once a year.

Shape and Content of Meetings

5. In the last few years the preparations for Economic Summit meetings have tended to become increasingly bureaucratic, despite attempts by Heads of State or Government and their Personal Representatives to resist this trend. In particular:-

- (i) Heads of State or Government have tended to arrive at the Summit (as they did in Venice) with a long and detailed communique which has been largely agreed in advance, which is then difficult to change, and which does not necessarily reflect the balance and thrust of their own thinking and discussion at the meeting.

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- (ii) Both at Tokyo and Venice some participants felt, and persuaded their colleagues, that the international energy situation required the seven countries represented at the summit to define in some detail targets for oil imports, for energy conservation or for investment in alternative sources of energy.

6. If the outcome of the meeting is required to be as detailed and specific as this implies, a considerable degree of advance preparation is inevitable. We think, however, that there is much to be said for the view that this is not what summit meetings of this kind should be about. They can of course endorse specific and detailed decisions taken in other international groupings, or by "subject" Ministers of the seven countries represented, when there is some particular reason for them to do so. But the primary purpose of summit meetings should be, we suggest, to provide opportunities for strategic and general discussions among Heads of State or Government. They should not be expected to take detailed executive decisions: they should review prospects, establish identities and differences of view, set directions, and perhaps define and accept broad commitments. The meetings should be such that their success is measured not by the length or the specificity of the communique but by the degree of mutual understanding established among the participants.

7. This cannot eliminate the need for some advance preparation. It is valuable for Personal Representatives to meet in advance of the summit, in order:

- (i) to identify the broad topics which Heads of State or Government are likely to want and need to discuss;
- (ii) to establish where there is likely to be general agreement - and therefore no need for extended discussion at the summit - and where there is likely to be some divergence of views among the Heads of State or Government - and therefore need for discussion to seek to narrow divergence and produce convergence where possible;
- (iii) to consider what should be the content and balance of a communique.

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8. We believe that the meetings of Personal Representatives have proved their value for these purposes, and that Personal Representatives can perform these tasks without excessive bureaucratisation, provided that they are not as a rule expected to produce corporate reports to which all must be formally committed. A technique that has proved useful for the purposes described in paragraph 7(ii) is for one Personal Representative to be invited to prepare a memorandum or study on a particular subject, which provides a focus for discussion in the group.

9. Ideally, if preparatory work on the communique is to stimulate rather than circumscribe discussion by Heads of State or Government, it should not be carried too near to finality before the meeting at the summit itself. In practice the limits on the amount of time available at the summit make it inevitable that some preparatory drafting work should be undertaken. This need not, however, be so inflexible as to constrain discussion, provided that the communique can be seen as primarily a description of the subjects discussed, rather than an account of the discussion; and, in so far as it goes beyond that, as a declaration of general views, policies and objectives rather than a statement of precise and detailed commitments.

Political Questions

10. These summit meetings were instituted to provide opportunities for exchanges of views on matters of international economic and financial policy, and have continued to be primarily economic summits. At recent meetings opportunities have been taken to discuss and to issue declarations on political matters; on aspects of international terrorism at Bonn, Tokyo and Venice, and on Afghanistan at Venice. We think that it is not only inevitable but highly desirable that, when these seven Heads of State or Government meet, they should take advantage of the rare opportunity for them to have a general political discussion of the international problems of the day which are of concern to all of them. It is no less inevitable and right that, if at the time of a summit meeting there is a subject of international political concern which calls for a public comment or declaration by this group of Heads of State or Government, they should use the opportunity that the meeting presents. But we think that it is desirable, and we recommend

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for the agreement of Heads of State or Government, that these meetings should keep, and be seen by the Press and the public to keep, as their primary function and characteristic that of being a forum for discussion of international economic and financial matters; and that the shape and content of the meetings and the balance of the final communiqués should be structured accordingly.

Conclusions and Recommendations

11. We invite Heads of State or Government to agree that:
 - (i) Economic Summits of these seven Heads of State or Government should continue to be held approximately once a year;
 - (ii) the object of the meetings should be to provide an opportunity for strategic and general discussion and where possible for agreement on international economic and financial issues, rather than to reach detailed executive decisions or highly specific commitments; and the communiqués should be prepared and structured accordingly;
 - (iii) the tendency for the preparation of these meetings to become increasingly bureaucratised should be reversed;
 - (iv) while the opportunity to engage in discussion of political questions will and should be taken, these meetings should keep their function and characteristic as being primarily for economic rather than political discussion.
12. Conclusions on these lines would require no announcement or reference in a communiqué (though they would no doubt be reflected in background briefing to the Press). The only announcement required would be the date and venue of the next meeting.

May 1981

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ANNEX G

UNITED STATES PAPER
ON EAST-WEST ECONOMIC
RELATIONS (full version)

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East-West Economic Relations: A Prudent Approach

SUMMARY

This paper establishes a comprehensive framework for discussing East-West economic relations with the Summit countries. It argues that these relations need to be consistent with the broad political and security circumstances and objectives which currently characterize Western relations with the Soviet Union and its Warsaw Pact Allies. The paper does not imply a forced reduction in the level of economic exchanges between East and West, recognizing that economic and employment factors are an important part of these relations, but rather that the Western countries should strengthen and make more meaningful coordinated policies toward trade and financial relations with the East. (The paper does not address China because both political and economic considerations with respect to that country are very different from those with the USSR and Eastern Europe).

The paper divides the task to be undertaken into four parts:

1. Strategic Controls. Posits a strengthening of these controls by a clear identification of significant items to be controlled and by improving the predictability of their administration.

2. Foreign Policy Contingency Controls. Recommends limiting the consideration of the use of these controls to contingency planning, working out among the Western countries areas of agreement and disagreement on the possible use of these controls well in advance of crises.

3. Economic Security. Proposes a new concept for examining economic relations with the East which is less concerned with levels of trade than with guarding against the vulnerability that these levels might imply.

4. Economic Influence. Suggests that Western countries, in pursuing trade and financial relations with Eastern Europe and perhaps eventually the USSR, seek to apply to the extent possible the rules and procedures applied by the West, affecting the allocation of resources in Eastern countries so as to ensure that they service their current and capital accounts with the West. At the very least, the West should not apply terms to this trade with the East (e.g. subsidized export credits) which contravene widely-shared practices among Western countries. It is unlikely that new restrictions on trade or financial ties would be needed under this concept. Rather, this approach suggests that Western government consider how they might orient their broader trade and financial relations so that, to the extent that governments are already involved in these relations, they can utilize what influence they do have to affect the economic and, through the reallocation of resources, the political behavior of these countries in ways which are favorable to Western interests. The recent Polish debt rescheduling negotiations in which Western lenders coordinated their approach is a good example of this concept.

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East-West Economic Relations: A Prudent Approach

Economic relations with the Soviet Union and the Eastern European countries should be consistent with the broad political-security objectives of the Summit countries. These objectives include:

- to nurture cooperation among these nations and enhance the commonality of their purposes and approaches toward the Soviet Union and Eastern Europe;
- to strengthen defenses in order to deal with the reality of a more rapid Soviet buildup in military power;
- to counter the projection of Soviet power both direct and indirect in Eastern Europe, Southwest Asia, Africa, Central America, and Indo-China;
- to encourage Soviet behavior that contributes positively to a pluralistic, free and peaceful world;
- to foster diversity in Eastern Europe by promoting domestic liberalization and foreign policy independence from the Soviet Union.

The Soviet Union and its Warsaw Pact allies remain the principal threat to Western security. The Soviet Union continues to devote an excessively large share of its gross national product to the military sector. This enhancement of Soviet military power coincides with aggressive Soviet foreign policy behavior -- open aggression in Afghanistan, visible threats on the borders of Poland, deployment of theater weapons in Europe (SS-20s) and support for leftist revolutions and terrorism (e.g., Libya, Ethiopia, Angola, El Salvador). Whenever possible the Soviet Union, with the support of other states of Eastern Europe, seeks to exploit indigenous discontent to bring to power elements which are hostile to Western political and economic institutions and, in the process, seeks to enhance its world position.

At the same time, the Soviet Union and some of its Warsaw Pact allies are experiencing unusually difficult times at home, particularly in the economic area. All studies of the Soviet economy show at best very slow growth in the early 1980s; some foresee a continued declining trend in GNP growth. Economic difficulties in Eastern European countries are also severe and will exert a further claim on Soviet resources.

Soviet militancy creates a need and Soviet economic difficulties provide an opportunity for the Western countries to further their objectives by pursuing more competitive or less cooperative policies toward the Soviet Union across a range of issues.

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As the Western nations seek to deter aggressive Soviet actions in Poland and elsewhere in the short-term and to redress the military balance with the Soviet Union over the near term (3 or 4 years), they must explicitly recognize the relationship between these objectives and the conduct of economic relations with the Soviet Union and Eastern Europe. These economic relations may enhance Soviet military capabilities directly, transfer technology not otherwise available which makes a significant contribution to military capabilities indirectly, and contribute more broadly to Soviet ability to support military programs at levels that Western countries with different domestic constraints find it increasingly difficult to match. Further, certain economic relations with the East may lead to levels of dependence which increase Western vulnerability to political influence and coercion by the Soviet Union; and certain economic relations may offer an opportunity to influence future Soviet and Eastern European economic and political behavior.

Given these considerations, the Western countries must review systematically policies toward economic relations with the Soviet Union and the Eastern European countries to take account of the different political-security conditions which prevail today and to influence the future course of Soviet policy in Europe and around the world.

Under what guidelines should the Western countries collectively restrict, monitor, or utilize the influence of their economic relations with the Soviet Union and Eastern Europe to advance broader Western political-security objectives?

In answering this fundamental question, distinctions can be made with respect to four areas of economic relations:

1. strategic controls - controls on exports of strategic goods and technology;
2. foreign policy contingency controls - controls on selective or overall trade designed to further U.S. and Western countries' political objectives, including signaling disapproval of Soviet actions, punishing the Soviet Union and, as appropriate, its Warsaw Pact allies; or deterring these countries from engaging in unacceptable behavior.
3. economic security - monitoring of the levels and terms of trade (e.g. subsidies) to limit dependence on markets or resources of the Soviet Union and Eastern Europe or to reduce vulnerability, arising from such dependence, to the exercise of Soviet influence over the West.

4. economic influence - coordination of broad Western policies toward trade and financial relations with Eastern European countries and in the longer run, the Soviet Union, so that, to the extent that governments are involved, they can utilize whatever influence they may have to affect the economies of these countries and, through the reallocation of resources, their political behavior in ways which are favorable in Western interests.

The most restrictive approach to economic relations between East and West would impose further limits on relations in the first and second areas and hold out little prospect for meaningful progress in the fourth area. The least restrictive approach would promote trade and financial flows in the fourth area, expecting to maximize positive influence, and impose limits only on strategic exports which have a direct and significant impact on Soviet military production.

Present circumstances call for a prudent and careful approach which deals with each area under differing assumptions and principles. Specifically, such an approach should seek to:

-- review the adequacy of strategic controls, improve their enforcement, consistency, and predictability of administration;

-- recognize that foreign policy controls are a vital aspect of contingency planning and impose these controls primarily in crises, in support of agreed objectives with agreed conditions for lifting them later (otherwise avoid imposing such controls); furthermore, to be effective, foreign policy controls must generally be imposed multilaterally;

-- foster discussion and review of levels of dependence on Eastern resources and markets, and development of collective measures to protect against vulnerability from this dependence;

-- concert policies to enhance adherence wherever possible of Eastern European countries to the rules and discipline of economic relations as practiced in the West.

Strategic Controls

The Western countries have administered controls on trade in strategic goods and technology with the Soviet Union and Eastern Europe for more than 30 years through the Coordinating Committee (COCOM). Despite its informal nature, COCOM has been relatively successful in slowing the transfer of militarily significant technology to the East. The West has protected important lead times over the Communist countries in the development and application of militarily significant technologies and has added to the costs of Soviet developments in the military sector.

After the Soviet invasion of Afghanistan, the COCOM partners discussed a range of issues involving stricter controls on the export of strategic goods and technology to the Soviet Union and

have in practice not sought exceptions in COCOM to sell embargoed goods to the Soviet Union. This discussion has focused a number of issues which need to be further reviewed and studied by the Western countries:

-- Should the no-exceptions policy become a permanent feature of COCOM, at least during the near-term period in which the West seeks to overcome Soviet military advantages?

-- Have the COCOM partners identified those significant goods and technologies which should be controlled?

-- Does the existing list of COCOM-embargoed items adequately cover advanced technology of military significance? (For example, COCOM controls on manufacturing technology and software are somewhat ambiguous and there is little coverage in such important defense priority support industries as metallurgy, chemicals, heavy vehicular transport, and shipbuilding.)

-- Are existing national and collective efforts to enforce COCOM decisions adequate? Is there a need and opportunity for more intensive consultation and cooperation among the Western countries in dealing with:

1. new scientific/technical developments -- are there end uses, especially military applications, which are not immediately apparent to the developer;
2. availability -- are comparable technologies available from more than one source;
3. intelligence -- wider and timely sharing of intelligence information on enforcement of COCOM regulations and on Soviet technological capacities and military needs;
4. commercial espionage -- how to restrict Soviet acquisition of technology through other channels;
5. varying national authorities to control strategic exports -- review of respective national authorities and institutions to implement strategic controls.

These discussions should go forward in COCOM and perhaps in meetings of a revitalized Consultative Group. But the Summit countries may wish to consider whether the Western countries need to create a new forum to conduct periodic high-level policy discussions called for by the complex and serious questions raised in this section.

Foreign Policy Contingency Controls

Foreign policy trade and other economic controls have been less systematically discussed and dealt with among the Western countries than security controls. Perspectives diverge on the necessity and effectiveness of such controls, the objectives to be served by such controls, and the timing and nuance of such controls when used as foreign policy signals to adversaries.

The Soviet invasion of Afghanistan and threatened intervention in Poland have contributed to a more intensive discussion of political or foreign policy controls on exports to the Soviet Union. After Afghanistan, the United States imposed a series of unilateral controls:

1. on grain shipments to the USSR in excess of eight million metric tons per year, the minimum US supply obligation established in the US-Soviet long-term grain agreement;
2. on non-grain agricultural products which might substitute for grain (e.g., soybeans, vegetable oils and meat);
3. on phosphate shipments to the USSR;
4. on Olympics-related equipment, services, and payments;
5. on exports of technologies for the manufacture of oil and gas equipment (as distinguished from the oil and gas equipment itself); and
6. on the diesel engine assembly line for Kama River truck plant.

The United States then sought to persuade other Western countries to cooperate with these embargo measures, particularly the agricultural and diesel engine assembly line controls, and to restrain their companies from undercutting the effectiveness of sanctions imposed by the U.S.

What is clear from past experience is that such controls would be more effective if they are implemented collectively and that the Western countries have been able to agree on the need for such controls more readily in the context of contingency planning for crisis than in the aftermath of crisis. It may be useful therefore to limit the consideration of foreign policy controls to contingency planning. Such consideration might entail not only a determination of what should be controlled under different types of crisis but also what conditions should be fulfilled before the controls would be lifted (e.g. withdrawal of offending adversary troops from a particular territory or, less stringently, initiation of a peace process to effect such withdrawal). Prior to the

occurrence of a crisis, precise agreement should be reached on goals and on specific actions which might be taken. Firm decisions as to which actions to implement would await the development of the crisis, but preparatory work should include coordinating perspectives in relation to various scenarios and achieving better understanding of national and collective capabilities to undertake important foreign policy responses involving trade controls. Such efforts in the case of contingency planning for Poland have proven fruitful.

The Summit countries may wish to consider various alternatives for conducting more systematic and sustained discussions of the use of foreign policy controls toward the Soviet Union and, to the extent appropriate, other Communist countries in the event of a crisis.

Economic Security

The foregoing discussion suggests that the basis for agreement among Western countries on control of trade with the East is strong in the area of strategic goods and technology and less strong, though nevertheless potentially significant, in the area of contingency planning for the use of foreign policy controls in crisis situations. In the trade area more generally, economic and political interests among the Western countries differ. Geographically and historically, Western Europe has longstanding trade and cultural links with Eastern Europe. The tables in Appendix A show that Western Europe has a much higher stake in trade with the East than the United States, Canada and perhaps also Japan. For Western Europe, this trade is an important source of domestic employment and industrial revenues. These differences cannot be ignored, anymore than the obligation they impose to ensure that there is broad confidence and clarity among the Western countries concerning the levels and terms of trade in their respective economic relations with the East.

The issue in collective consideration of broader economic relations with the East is less restriction of trade and financial flows than careful monitoring of the consequences of such trade, particularly the acquisition by the Soviet Union and Eastern European countries of a degree of leverage over Western countries that permits direct political influence over the policies of Western countries or that sharply reduces the options of Western countries in dealing with Eastern countries. This is a different concern from that which seeks to use Western economic relations to influence the Soviet Union and Eastern European countries (see next section). It deals with Soviet and possibly Eastern European, economic influence over the West. This influence derives in the first instance from the level of dependence of the West on Eastern resources or markets. In purely economic terms, such dependence is reciprocal. A supplier can be beholden to the customer as much as the reverse. The Soviet Union and its Eastern European Allies have economic reasons to preserve such trade as does the West. It benefits them as it benefits us. Nevertheless, in a

situation such as that which exists between East and West where political - security interests diverge, it would be unwise to rely on the mutually beneficial economic consequences of trade and financial relations to preserve these relations under all circumstances. Parties will be constantly searching for unilateral advantage. If cutting off supplies (or markets) should at any time seem likely to result in greater disadvantage to one party than the other, some incentive and opportunity to exercise leverage would emerge. It must be recognized that the USSR's ability to exercise economic leverage is greater than that of the West because the USSR can more easily exact concerted action from its East European Allies.

The potential for influence thus ultimately derives from vulnerability not dependence. Vulnerability results from failing to review continuously among the Western countries the advantages and disadvantages of various economic relationships and failing to consider measures to protect against efforts by the other party to manipulate these advantages and disadvantages. In their economic relations with the East, the Western countries will have to worry less about the levels of trade and financial relations the more they consider means to protect against the vulnerability which derives from these levels. An essential means of preserving gains in economic relations with the East is for the Western countries to enter into discussions to deal with vulnerability. Unless this is done, the levels of dependence themselves will become matters of controversy and act to undermine confidence among the Western countries in their respective economic relations in the East.

The Western countries should observe a prudent concept of economic security in their economic relations with the East. This concept supplements the more familiar concept of strategic security but is very different in its premises and application. Economic security does not necessarily imply the restriction of trade and other economic transactions between East and West. But it does require building in protection against the disruption of supply of critical materials (e.g., natural gas) from the Soviet Union. This might include back-up emergency supply arrangements among the Western countries, long-term cooperation for development of alternative supplies, etc. The concept of economic security implies, as well, assuring that no single objective (e.g. commercial consideration) drives East-West trade so hard that economic and political pressures will increasingly require the West to trade goods and know-how to the East with concomitant danger to the security of the West.

What is involved in economic security is similar in concept to the protection against the disruption of oil supplies and to the development of alternatives to oil in as rapid a manner as possible. The requirement in East-West trade is to prepare for short-term supply disruptions of Eastern resources and where feasible to develop long-term alternatives.

The concept also applies to the development of markets in the East for supply of Western goods and financial services (as opposed to the acquisition of goods or resources from the East). In this case, economic security could involve consideration of alternative markets or alternative uses for Western exports if realities should warrant cutting off exports to the Soviet Union and, as appropriate, to other Communist countries. (It also implies, incidentally, maintaining open markets in the West to reduce pressures to expand trade with the East).

There are a host of issues raised by this concept which deserve further discussion and study among the Western countries:

-- Are there alternatives to substantial Western reliance on Soviet sources of supply (e.g. of gas, oil or minerals) or on Soviet markets? (What is the relationship here between access to energy resources in the West and Middle East and decisions to obtain such resources from the East?)

-- Should the Western countries continue to subsidize trade with the East (e.g., concessional export credits) particularly for products and projects that contribute to potentially, troublesome levels of dependence and vulnerability?

-- What are the implications of the debt problem for narrowing Western options in dealing with Eastern European countries and the Soviet Union, especially as long as some of these countries remain free of the discipline of the IMF and other Western institutions? (The point here is can the West afford default any more than the East and, if not, does the financing of higher levels of debt contribute more to our potential leverage over them or their potential leverage over us?)

The Summit countries may wish to adopt the concept of economic security for further discussion and study.

Economic Influence

Considerable trade and financial activity takes place between East and West which does not raise strategic or economic security concerns and which in normal times is not subject to foreign policy controls. This economic activity offers some opportunity to influence Eastern European countries and perhaps less so the Soviet Union, although recent history would suggest that such influence is not very great. Western actions to stimulate economic relations with the East, especially the USSR, are not as significant for improving political and security relations with the East, as some argued in an earlier period. Nor are Western measures to restrict economic relations as effective in adversely affecting the political and security programs of these countries, as others might contend. Nevertheless, given the more competitive character of relations today between East and West,

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it is useful for the Western countries to consider how they might orient their broader trade and financial relations with the East so that, to the extent that governments are involved in these relations, they can utilize whatever influence they may have to affect the economies and, through the reallocation of resources, the political behavior of the countries in ways which are favorable to Western interests. The recent Polish debt rescheduling negotiations in which lenders coordinated their approach is a good example of the concept of economic influence. It is unlikely that new restrictions on trade and financial ties would be needed under this approach.

In this consideration, the Western countries should be guided by several common objectives:

-- to foster diversity among the Eastern European countries and particularly increased flexibility and lessened dependence on the Soviet Union;

-- to avoid alleviating the costs to the Soviet Union of its hegemonial policies in Eastern Europe and its imperialistic policies, with the support of some Eastern European countries, outside Europe;

-- to encourage the Eastern European countries increasingly to subject their foreign and indirectly domestic economic activities to the rules, discipline and eventually institutions of the Western economic system.

In implementing these common objectives, the Western countries must recognize the diversity of their own relations with Eastern European countries, as well as the diversity of the relations of individual Eastern European countries with the West. The Table in Appendix A shows trade data for 1979. While Western trade with the East is more important for some countries than for others, it is not in general a crucial share of total exports or imports. The share is highest for the FRG where exports to the East account for some 6.5% of total exports, with 1.5% of total exports to the GDR alone. French and Italian exports to the East were 2.1% and 1.9% of total exports, respectively. A total disruption of trade would have a noticeable impact on the FRG's economy and employment, especially as much of the FRG's exports are in chemicals, steel products, manufactured goods and machinery. Much of West Europe's exports to the East involves machinery and manufactured goods under long-term contract. On the other hand, trade between North America and Eastern Europe, despite a rather dramatic expansion over the last decade, is still rather modest, although rather important in certain categories. In fact, as a share of total trade, it has stabilized over the last five years.

For the countries of the East, Western markets represent the most significant outlet outside of CEMA. With the exception of Bulgaria, most of these countries have relatively large shares of exports going to the West, representing far higher percentages

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of their total trade than is the case for Western trade with the East. Historically, the Eastern European countries and the USSR have imported more from the West than they have exported and to cover this they have borrowed heavily. However, the Soviets were in surplus on trade account with the West in 1980. Total Soviet trade is a much smaller part of GNP than is the case for all Eastern European countries.

The commodity patterns of East-West trade also exhibit considerable diversity (see Tables IV and V). The bulk of Western exports to Eastern Europe are in food, chemicals, manufactured goods, steel products, machinery and transport equipment. Western Europe exports primarily chemicals and manufactured goods although France also exports a considerable volume of food and live animal products to the USSR and Poland. In contrast the great bulk of exports from North America is in grains and soybeans with only modest amounts of manufactured items. On the import side, fuels and chemicals dominate the picture for Western Europe. Japan's imports are mainly raw materials and some wood and paper products from the USSR. US imports are dominated by meat products from Poland, metals and chemicals from the USSR, and manufactured goods from Poland and Romania.

The West is clearly a more important market for Eastern European countries than vice-versa. This reality should be recognized as an opportunity to coordinate Western policies to increase the influence of Western economic rules, discipline and institutions on the economies and foreign trade, investment and financial policies of these countries.

We should be supportive of efforts by all of the Eastern Europeans to accede to the specialized GATT codes. (e.g. aircraft, standards,) when such accession would clearly offer reciprocal benefits.

Although four countries (Czechoslovakia, Poland, Romania and Hungary) are already full members of GATT, we have experienced problems with regard to their terms of accession and the application of their commitment. In general, these countries should be encouraged to develop their economies in such a way that it will make their commitments under the GATT more meaningful. Hungary has gone the farthest in this direction in moving toward a single exchange rate, decentralization of decision making in the foreign trade sector and the introduction of a relatively meaningful tariff schedule. Steps in this direction by the other Eastern European GATT members would both make their GATT commitment to the other contracting parties meaningful and encourage economic reform. We should not encourage GATT membership by Bulgaria, the GDR or Albania until these countries show a readiness to introduce reforms into their economies which would make such membership economically meaningful and guarantee reciprocal benefits to the other contracting parties.

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On the financial side, the East has come to rely more on hard currency earnings from exports to the West to purchase the equipment it needs for growth. But credit has also become a major component of the expansion of trade. Outstanding Western loans to CEMA have reached nearly \$80 billion. This too is a two-edged sword. On the one hand, it has drawn the Eastern European countries into a closer working relationship with Western financial institutions. The countries of the East are individually vulnerable to a serious drop in mutual trade if they become poor credit risks. They thus have strong incentives not to let this happen. On the other hand, there is considerable leverage in the opposite direction. Western banking institutions, and hence governments, may go a long way to accommodate a debtor rather than run the risk of default. This tendency may be accepted as long as the Eastern European countries are subjected more and more to accountability based on accepted rules and procedures in the Western world. Unless this is done, continued imbalanced Western trade and resultant increases in debt weaken Eastern European capacity to maintain stable economic growth and also serve to alleviate the costs to the Soviet Union of maintaining its relations with these countries.

IMF membership raises some difficult questions. Western countries should study carefully the question of IMF membership for additional Eastern Europe countries, particularly since it is not at all clear that Communist countries can comply fully with the Fund's methods of operations.

The Summit countries may wish to consider the need to establish on an ongoing basis a collective monitoring and review process.

1) to backstop trade and financial negotiations so that to the extent that governments are involved in these negotiations, they can use whatever influence they may have to affect the economies and, through the reallocation of resources, the political behavior of Eastern European countries in ways which are favorable to Western interests; and

2) to coordinate Western efforts to extend the influence of Western rules, procedures and institutions to economic relations with these countries.

Appendix A

Table I

Trade Data for Summit Countries & Eastern Europe

1979	USA	Canada	Japan	UK	France	FRG	Italy	TOTAL
GNP (\$b)	2,369	219	1,030	394	570	760	319	5,661
Exports (\$b)	182	58	102	91	101	172	72	778
Imports (\$b)	207	54	110	103	107	160	78	819
Exports/GNP (%)	7.7	25.1	10.1	22.6	17.1	22.9	22.3	13.7
Exports to USSR (\$m)*	3,607(2.0)	654(1.2)	2,442(2.4)	889(1.0)	2,005(2.1)	3,619(2.1)	1,218(1.7)	14,434(1.9)
Exports to E. Eur. (\$m)	2,066(1.1)	338(0.7)	802(0.8)	1,169(1.3)	2,022(2.1)	7,650(4.4)	1,415(1.9)	15,462(2.0)
Imports from USSR (\$m)	874(0.4)	55(0.1)	1,913(1.7)	1,756(1.7)	1,790(1.7)	3,893(2.4)	2,063(2.7)	12,344(1.5)
Imports from E. Eur. (\$m)	990(0.5)	202(0.4)	320(0.3)	1,202(1.1)	1,500(1.4)	6,533(4.2)	1,804(2.3)	12,551(1.5)

1979	USSR	E. Eur.	Bulgaria	Czech.	GDR	Hungary	Poland	Romania
GNP (\$b)	1,375	427	27	77	89	36	119	79
Exports (\$b) incl. CEMA	65	78	9	14	17	11	17	10
Imports (\$b) incl. CEMA	58	83	9	14	19	12	18	11
Exports/GNP (%)	4.7	18.3	33.3	18.2	19.1	30.6	14.3	12.6
Imports from Summit Countries (\$m)	14,434(24.9)	15,462(18.6)	842(9.4)	1,898(13.6)	3,877+(20.4)	1,895(15.8)	4,133(23.0)	2,817(25.6)
Exports to Summit Countries (\$m)	12,344(19.0)	12,551(16.1)	562(6.2)	1,648(11.8)	3,127+(18.4)	1,686(15.3)	3,305(30.0)	2,223(22.2)

* Numbers in parentheses indicate percent of world exports and imports represented by this bilateral trade.

+ Imports from FRG 2,574; exports to FRG 2,440.

APPENDIX A

TABLE II

TRENDS IN TRADE OF NATO AND JAPAN WITH USSR AND E. EUROPE

EXPORTS TO (\$m.)	EASTERN EUROPE					USSR			TOTAL
	1969	1974	1979	1969	1974	1979	1969	1974	
NATO Europe	2,766	9,560	14,764	1,399	4,198	8,970	4,165	13,758	23,734
USA and Canada	159	954	2,404	115	639	4,261	274	1,593	6,665
Japan	74	574	802	268	1,095	2,442	342	1,669	3,244
TOTAL	2,999	11,088	17,970	1,782	5,932	15,673	4,781	17,020	33,643
Total to World							164,710	473,127	934,000
% of World	1.8%	2.3%	1.9%	1.1%	1.3%	1.7%	2.9%	3.6%	3.6%
IMPORTS FROM:									
(\$m.)									
NATO Europe	2,568	7,036	14,266	1,519	4,450	12,096	4,087	11,486	26,362
USA and Canada	203	702	1,192	63	374	929	266	1,076	2,121
Japan	113	277	320	462	1,417	1,913	575	1,694	2,233
TOTAL	2,884	8,015	15,778	2,044	6,241	14,938	4,928	14,256	30,716
Total from World							170,771	507,852	1,001,493
% of World	1.7%	1.6%	1.6%	1.2%	1.2%	1.5%	2.9%	2.8%	3.1%

Appendix A

Table III

Summit Countries: Trade with the USSR and Eastern Europe, 1979^{1/}
(by Commodity Classification)

	Big Seven Exports			Big Seven Imports		
	USSR (million US \$)	Eastern Europe Total	Share in total BIG 7 Exports (percent)	USSR	Eastern Europe Total	Share in total BIG 7 Exports
Machinery & Equipment	4,432	5,022	3.1	327	1,279	0.9
Fuels	0	628	1.7	4,864	2,326	3.6
Chemicals	1,555	2,377	5.0	1,117	827	3.6
Metals	3,118	1,728	10.1	75	1,123	3.7
Wood & Wood Products	2	37	0.6	1,251	322	9.3
Foodstuffs, Beverages, Tobacco	3,595	2,566	8.1	204	1,888	2.1
Other Consumer Goods	678	1,265	2.0	155	2,846	-
Other	1,080	1,842	2.5	3,612	2,110	4.1
TOTAL	14,460	15,465	3.9	11,605	12,721	3.0

^{1/} Canada, France, Italy, Japan, United Kingdom, United States, and West Germany.

Source: Western foreign trade statistics.

Appendix A

Table IV

Exports of Summit Countries to E. Europe & USSR
by SITC Commodity Categories, 1979
(\$ million)

	<u>Bulgaria</u>	<u>Czech.</u>	<u>GDR</u>	<u>Hungary</u>	<u>Poland</u>	<u>Romania</u>	<u>Total E. Eur.</u>	<u>USSR</u>	<u>TOTAL</u>
Food & Live Animals	71	280	562	83	942	271	2,209	2,965	5,174
Beverages & Tobacco	10	9	56	4	26	3	108	29	137
Crude Materials	37	121	121	74	238	235	826	709	1,535
Fuels	4	23	352	24	24	200	627	81	708
Animal & Vegetable Oils	1	2	58	4	42	11	118	94	212
Chemicals	151	364	534	412	564	302	2,327	1,413	3,740
Manufactured Goods, by material	271	334	933	484	923	657	3,602	4,166	7,768
Machinery & Transportation Equipment	248	643	1,067	663	1,207	1,025	4,853	4,308	9,161
Miscellaneous Manufactured Articles	38	94	155	116	117	91	611	409	1,020
Not Classified	8	18	30	22	23	9	110	88	198
	839	1,880	3,868	1,886	4,106	2,804	15,391	14,262	29,653

Source: OECD & National Trade Statistics
(Numbers between tables may differ slightly due to differences between sources.)

Table V

Imports of Summit Countries from E. Europe & USSR
by SITC Commodity Categories, 1979
(\$ million)

	<u>Bulgaria</u>	<u>Czech.</u>	<u>GDR</u>	<u>Hungary</u>	<u>Poland</u>	<u>Romania</u>	<u>Total E. Europe</u>	<u>USSR</u>	<u>TOTAL</u>
Food & Live Animals	92	122	330	413	646	164	1,767	159	1,926
Beverages & Tobacco	59	8	20	26	14	16	143	33	176
Crude Materials	39	220	150	133	336	92	970	2,053	3,023
Fuels	110	138	662	79	662	672	2,323	5,905	8,228
Animal & Vegetable Oils	5	6	--	4	13	24	52	8	60
Chemicals	27	125	278	141	120	73	764	1,204	1,968
Manufactured Goods, by material	123	542	779	304	673	475	2,896	980	3,876
Machinery & Transportation Equipment	37	232	317	210	427	163	1,386	329	1,715
Miscellaneous Manufactured Articles	67	228	632	361	424	567	2,279	98	2,377
Not Classified	8	35	25	27	32	9	136	99	235
	567	1,656	3,193	1,698	3,347	2,255	12,716	10,868	23,584

Source: OECD & National Trade Statistics
(Numbers between tables may differ slightly due to differences between sources.)

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ANNEX H

UNITED STATES PAPER
OF QUESTIONS FOR
DISCUSSION ON EAST-WEST
ECONOMIC RELATIONS

CONFIDENTIAL

July 6, 1981

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QUESTIONS HEADS MIGHT ADDRESS ON EAST-WEST ECONOMIC RELATIONS

1. Do Soviet actions in recent years (Afghanistan, Poland, arms buildup and deployment, support for Cuban adventurism) suggest, if not require a review of what we seek to achieve in our economic relations with the Soviet Union?
2. Are the assumptions which led to the development of East-West trade in the 1970s valid today? Still valid in the long-run?
3. In light of our collective efforts to respond to recent Soviet actions, do we need to strengthen the system of security controls which seeks to restrict transfers to the Soviet Union which contribute to their military capabilities?
 - a. Should the no-exceptions policy become a permanent feature of COCOM, at least during the near-term period in which the West seeks to overcome Soviet military advantages?
 - b. Have the COCOM partners identified those significant goods and technologies which should be controlled?
 - c. Does the existing list of COCOM-embargoed items adequately cover advanced technology of military significance? (For example, COCOM controls on manufacturing technology and software are somewhat ambiguous and there is little coverage in such important defense priority support industries as metallurgy, chemicals, heavy vehicular transport, and shipbuilding.)
 - d. Are existing national and collective efforts to enforce COCOM decisions adequate? Is there a need and opportunity for more intensive consultation and cooperation among the Western countries in dealing with:
 - (1) new scientific/technical developments -- are there end uses, especially military applications, which are not immediately apparent to the developer;
 - (2) availability -- are comparable technologies available from more than one source;
 - (3) intelligence -- wider and timely sharing of intelligence information on enforcement of COCOM regulations and on Soviet technological capacities and military needs;

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- (4) commercial espionage -- how to restrict Soviet acquisition of technology through other channels;
 - (5) varying national authorities to control strategic exports -- review of respective national authorities and institutions to implement strategic controls.
4. Given the uncertainty of the evolution of current events and our recent experience in contingency planning for Poland how do we facilitate discussion among the Summit countries concerning the response to future threats to our common interests?
 5. If we seek to preserve a sound basis among the Summit countries for existing levels of East-West trade, how do we strengthen confidence among us that this trade does not entail threatening vulnerabilities?
 - a. Given the geo-strategic importance of the Soviet Union, can dependence on the Soviet Union for markets for critical materials be treated on the same basis as relations with other, less significant countries?
 - b. Should the Summit countries discuss more systematically the range of alternatives to substantial Western reliance on Soviet sources of supply? or, failing the existence of economic alternatives, to protect against vulnerabilities arising from substantial reliance on Soviet resources?
 - c. Should the Summit countries continue to subsidize trade with the East (e.g., concessional export credits) particularly for products and projects that contribute to potentially troublesome levels of dependence and vulnerability?
 6. In pursuit of their economic relations with Eastern Europe, should the Summit countries seek to coordinate their policies more closely to achieve the following objectives:
 - to foster diversity in this region;
 - to avoid alleviating the costs to the Soviet Union of its hegemonial policies in the area; and
 - to encourage the countries of Eastern Europe increasingly to subject their foreign and, indirectly, their domestic economic actions to the rules and institutions of the Western economic system?

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ANNEX J

REPORT OF PRE-SUMMIT CONFERENCE OF NON-GOVERNMENT EXPERTS

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The Institute / L'Institut
for Research on Public Policy / de recherches politiques

REPORT ON THE
PRE-SUMMIT CONFERENCE
OF NON-GOVERNMENTAL EXPERTS

Held at the Chateau Montebello

Montebello, Quebec, Canada™

June 19 - 21, 1981

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REPORT ON THE PRE-SUMMIT CONFERENCE
OF NON-GOVERNMENTAL EXPERTS

At the invitation of the Institute for Research on Public Policy, three or four private citizens from each of the seven Summit countries met on June 19, 20 and 21, 1981 in Montebello, Quebec to discuss issues that could arise at the Ottawa Summit in July. They were joined in their discussions the first evening by the Prime Minister of Canada, the Right Honourable Pierre Elliott Trudeau.

The Ottawa Summit takes place at a time of great economic and political difficulty. The economic problem arises from volatile and historically high interest rates, as well as increasing pressures for trade protectionism, which threaten to impair the orderly growth of the western economies. The political problem stems from continued Soviet occupation of Afghanistan, and the strains in Poland, which create new dangers of confrontation. To these, the addition of a number of other detailed issues outlined below assures an agenda that will test the capacity of the seven countries to provide coherent leadership for the western world.

Participants agreed that the Summit countries faced differences in approach and policy unparalleled in recent years. Several stressed the overall linkage amongst the various issues. Others sensed a risk that the issues would not be kept separate and could instead come together in an explosive mixture. Participants also thought that the Summit leaders, meeting a month from now, should discuss candidly their differing views and reactions to issues but could focus most usefully on those elements on which there might be some agreement and commonality of approach.

I. The International Economic Situation and Prospects

The topic on which most time was spent was the international macro-economic situation and policies. While it was felt that economic growth during the current decade would not reach rates attained in the 1950s and 1960s, it was the general view that economic growth in Summit countries had to be sufficient to ensure the attainment of their principal domestic and international objectives. As well as making adjustment to the changing international economic environment easier, higher rates of growth would make it more feasible for the European countries to assume greater defence burdens and for the developing countries to enjoy more opportunities for economic advancement.

Participants agreed that Summit leaders would be best advised to review and discuss medium-to-longer term problems. The major problems of policy were agreed by all to be those of economic growth, inflation, savings and investment, trade, and reduced unemployment. In order to achieve productivity gains and increases in the standard of living over time, there was a general view that more resources in the western economies would have to go into investment and that each country would have to overcome inflation in their respective economies if there were to be sustainable, high rates of economic growth.

The primary policy instrument chosen to overcome inflation had been restrictive monetary and fiscal policies, and this was judged by most to be broadly appropriate and to be part of any program. Some participants argued that reliance latterly by the United States on the monetary policy instrument had led, however, to high and volatile interest rates, as well as depreciating foreign exchange values expressed in dollars, and had resulted in undesirable ramifications internationally both for other industrialized countries and for the developing world. Others argued, however, that the primary cause of recent interest rate and foreign exchange market behaviour was the fact of inflation itself. It was further pointed out that earlier Summits had urged the United States, the largest economic power, to undertake a concerted policy to control inflation in the interests of the entire world economy. While one participant suggested that one way of de-coupling the anti-inflationary effect of high interest rates in the United States from their disruptive impact on other countries would be to suspend U.S. tax deductibility for interest payments, leaving the net cost after tax for most unchanged, it was generally agreed that more normal patterns of interest and exchange rates would be restored once inflation had been brought under control.

It was not clear what an appropriate macro-economic policy mix should be in the Summit countries. Some participants suggested that a somewhat more restrictive fiscal policy seemed to be desirable while others argued that more innovative structural policies involving the formulation of a new social consensus, and the adjustment of present indexation systems to reduce the impact of price changes originating abroad, were called for.

All participants looked to a return to a more stable exchange rate environment, once inflation had been contained, which would impose some discipline on individual national economic policies and which would prevent abrupt shifts in competitive positions and ultimately in trade flows. Short of, or in addition to, a return to more stable rates, all participants strongly supported the view that earlier consultation on the part of Summit countries was highly necessary and desirable when it was clear that a certain policy action would cause a significant impact on its economic partners.

Although the price of oil expressed in dollars appears to be stabilizing recently, and a current surplus of that key natural resource has emerged, participants urged their leaders not to be complacent about the energy situation. Oil would remain an important element for many years to come in underpinning the economic and political well-being of the western industrial democracies, as well as of the oil-importing developing countries. While a crisis concerning energy did not appear to face leaders at present, it was felt that any one precipitous change affecting supply could drastically change for the worse the favourable contingent and structural factors prevailing currently. Contingency planning in this context remained very important in order both to moderate price volatility and to assure some sharing of supply vulnerabilities.

Many supply displacement programs, involving the broadening of sources of energy supply and the conservation of energy use, were already well underway in Summit countries. Participants felt that these initiatives should continue as should national, regional and international research and development efforts concerning alternative technology. Such technology is very important to the

long-term security of the west and to the longer-term survival of the developing world.

Participants agreed that notwithstanding declared support for the open trade and payments system, specific actions by certain Summit countries in the recent past were a source of genuine concern. The general framework for international trade was being undermined by ad hoc trade actions to protect specific sectors. Those economies still remaining open could become vulnerable as commodity flows shifted.

While all participants agreed on the existence of the seriousness of the international trade problem, there was some difference as to whether the rules of GATT are now adequate and whether review of the adequacy of existing trade rules should take place within the GATT or more broadly. All agreed that adjustments to changing competitive advantages took time and might cause painful effects for the factors of production involved. The management of this structural adjustment, if recourse to increased protectionism is not to become more frequent, should be a concern of all trading partners.

II. East-West Relations

Participants suggested that the overall western strategy with respect to the U.S.S.R. and its allies should be "two-tracked". This approach would imply both the maintenance and reinforcement of the security posture of the West and also renewed effort by the seven countries to involve the U.S.S.R. and its allies in discussions, consultations, and negotiations over a range of issues including economic cooperation.

Concerning the first aspect of the two-pronged approach, participants stressed the need to maintain and enforce the security posture of the West. They agreed with the NATO decision of December 1979 on modernizing the Theatre Nuclear Force. Several expressed the hope that arms control negotiations, called for in the 1979 NATO decision, would be resumed as soon as possible.

With respect to the second aspect of the two-pronged approach, interaction with the Eastern bloc over a broad range of issues, it appeared that there are important differences in perceptions and priorities amongst the Summit countries. While most participants agreed that the tone of the dealings with the U.S.S.R. and its allies should be low key, clear differences of view existed concerning the advisability and extent of East-West trade and indebtedness, the question of energy dependence, and the transfer of technology, particularly with respect to Siberian oil development. Most would favour, however, western support for energy development within the U.S.S.R. in order to relieve potential world shortages and to avoid Soviet pressure on sources outside the U.S.S.R.

Since these are issues which have important economic and political consequences and could create in some cases differences between the Summit countries, it was felt that they would have to be discussed on a case-by-case basis. Government officials and the private sector would therefore benefit from their leaders' views on these questions. Participants strongly agreed, moreover,

that both these specific issues and the overall strategy of dealing with the Eastern bloc would take on a quite different complexion should the present situation in Poland change dramatically.

III. North-South Relations

Relations between the developed and developing world were discussed in considerable detail, with no overall consensus emerging. One general view expressed was that the objective of the Ottawa Summit could be to reconfirm the political will of the Summit countries concerning the economic development of the less-developed. The other view that evolved during discussion was that no generalized government-to-government commitment need or should be made at this time, that the West would be doing well to maintain present levels of official aid. The access of the developing countries to western trade and technology in this view might well be expanded through the private sector. It was agreed by all, nevertheless, that reality concerning the issues involved in the North-South dialogue had to be faced and that the serious differences of political outlook and priorities among the Summit countries had to be recognized.

Themes stressed by the participants were several. Problems of financing, both in terms of recycling oil money and of maintaining a viable balance of payments, were addressed. It was felt by most that no new international financial institutions were necessary. Several others, however, thought that now was a propitious time for reform of existing institutions, such as the IMF, the IBRD, and related bodies. New means by which these institutions could guarantee the operations of the private banks, promote long-term lending by the oil-surplus countries, or facilitate the stabilization of export earnings and of prices for the primary producers in the developing world might well be added to better assist the structural adaptation of the developing countries.

The continuing need for energy research and the development of new sources of technologies was also referred to. Most agreed that if the opportunity were not seized now to expand and disseminate the production of energy as much and as quickly as possible outside OPEC, the prospects for world economic growth would be seriously impaired.

All agreed with the emphasis being placed in new development strategies on the importance of human capital. Training programs, emphasizing management, language and other skills, located either on-the-job or at educational institutions both in developing countries and the western world, were part of this approach as was the use in small and medium size enterprises in the South of retired experts from the North. Improved health facilities and population control techniques were also critical to improved prospects for the developing world.

On the other hand, it was felt that the trade in armaments, in which certain developing countries had a disproportionately large role, was an increasingly negative aspect of the north-south relationship. Not only were very scarce resources being used up by those countries participating actively in this trade, but also public opinion in the western world could come to doubt the development goals and priorities of the developing countries themselves in these circumstances.

A very open issue, and one requiring a great deal of thought on the part of both developed and developing countries, was that of the appropriate role of private western investment. Differing treatment and confusing signals often surrounded the principal mechanism of such investment, the multinational enterprise, yet it was clear to several participants that this institution was a very efficient means of transferring and upgrading technology and of employing and improving the quality of local labour. Others stressed, however, that this form of investment did not go generally to the poorest countries or into less profitable areas such as agriculture, infrastructure, health, and education.

Finally, several participants stressed the fact that the South was not one bloc but several. Thus generalized policies involving the South were not always appropriate. The General System of Preferences, for example, appear to benefit primarily the more advanced developing countries so that other means of ensuring the access of the poor states to markets should be found.

IV. Inter-Western Relations

In assessing the results of the series of seven Summit meetings to date, participants agreed that the principal achievement appeared to have been in some coordination of macro-economic policies and in the provision of a forum for economic crisis management. Similar success had been attained on energy policies. On trade, it had not been possible to go beyond generalities but this had to be viewed against the background of the on-going multilateral trade negotiations at the time and the fact that the Summits had succeeded in encouraging governments to maintain relatively liberal trade policies through the worst recession of the post-war years. The process had helped to provide political solidarity for the West and had assisted governments in obtaining the support of their electorates for unpopular economic policies by demonstrating the common approach of the Summit countries. The crisis management role was being enhanced by the additional political dimension being given to the discussions.

Nevertheless, it was also the view of many of the participants that the Summits risked becoming a negotiating process rather than a consultative one. This was considered a negative aspect, as was the growing tendency towards the bureaucratization of the process. Furthermore, while it was accepted that the increasing political dimension of the discussions was important, it was pointed out that the Summit countries are less of a coherent group for discussion of this sort than they are for economic issues where together they account for over 80 percent of the western world's economic activity.

In considering the future of the Summit process, participants placed considerable emphasis on the need to maintain the Summit meeting as the supreme consultative body and stressed that it should be reserved for the discussion of topics that only Heads of Government and of State can undertake. These would relate to fundamental medium and longer term policy orientations and possible crisis management and might well benefit from meetings of slightly longer duration. Many thus viewed the Summits as an opportunity for their leaders to meet and discuss issues of importance in a free and informal way thereby fostering personal relationships and understanding amongst themselves.

However, several participants also pointed out certain risks for wider international cooperation in the process of summitry. Too much reliance on the Summits for Western coordination carried with it the serious possibility of weakening the established international institutions and reducing their credibility as well as alienating those western countries not part of the process. These considerations would have to be weighed in any discussion of the future of the Summit process. Participants viewed it as important that consultations with non-participating countries and the international institutions should be improved.

Note: While all participants took part in the discussions, Mr. Samuel Brittan did not feel that he could subscribe to the Report.

Ottawa
July 3, 1981

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