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Economic Summit, Fourth Session
Monday, November 17, 1975 10:00 a.m.

Prime Minister Moro: I should like to discuss economic and social relations between the East and West, particularly relations between Western Europe and Eastern Europe. To counterbalance the influence of the Soviet Union in Eastern Europe, it is necessary to emphasize that we are attractive partners for Eastern Europe in East-West economic relations. Communist countries take 5% of the overall exports of the industrial countries. The amount varies from one to another--7-8% for some, 2% for North America. In 1974 industrialized countries' exports to the Socialist countries amounted to \$27 billion, and their imports were \$23.4 billion. For the Socialist countries trade with the West varies in importance. Many are dependent on us for imports of machinery. The Soviet Union imports 5% of its GNP. We in the West import maybe 2.5% of our GNP from the Soviet Union.

Thus, East-West trade, for us, is not particularly important. The amount is not very high when compared to world trade, but is qualitatively important. First, economic relations between the East and the West are important factors in world stability, and are closely related to detente between East and West. Thus it contributes to improving relations. And it helps to improve the standard of living in both of our economic systems over the long run.

In the development of economic relations between the East and West, trade has been stepped up in the past few years. But the East has had a deficit since 1972. The result is that the relations between imports and exports with COMECON have worsened. The East has experienced a structural balance of payments deficit. The reasons for this trend have varied. The Eastern nations need plants and technology from the West. But the intensive economic development of the Socialist countries has not yet enabled them to produce goods of a quality satisfactory to the West. The recession in the West has also led to an imbalance in trade. But the increase in the deficit is worse with the smaller Eastern Europe countries. The Soviets and China have exploited the oil price increase and their markets in East Europe in order to increase wheat and cereal imports from the West.

The traditional East-West framework has not significantly changed. It should be emphasized that there has been an increase in percentage of exports of manufactured goods sold to the Socialist nations. Exports of these products were \$2 billion in 1972, \$3 billion in 1973, and \$4 billion in 1974. Half of the deficits concerned China.

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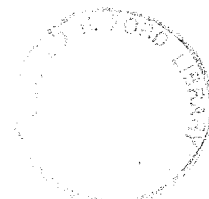
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BY *ML/ML* NARA DATE *8/20/04*



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Western exports credits have been extended to allow Eastern countries to strengthen their industrial production: but these countries cannot not produce enough to pay off these loans with exports. However, the structure of planned economies makes it easier for them to call on credits from the West. The Soviet Union has been the main beneficiary--with \$57 billion of credit outstanding at the end of 1975. The credit enables the Soviets to provide financial aid to COMECON countries which have deficits with the Soviet Union. The West has also lent money to COMECON, which has an outstanding debt of \$7.7 billion in 1973 and \$9.7 billion in 1974. There also is a trend toward the development of bank credit to East Europe countries, but the banks have been cautious.

The rules in the West to safeguard freedom of trade and to eliminate discrimination are difficult to apply in relations between the West and the East. Poland and Rumania are interested in commercial advantage, not simply political. Some of these countries are not able to guarantee strict adherence to the GATT. Nonetheless there have been some results through closer trade relations with the East. A gradual expansion of trade has taken place. The possibility has also arisen of the Soviet Union and China becoming associated with the GATT on specific problems. Rumania is already in the IMF, but certain advantages of membership might lead others to apply. However, we must also recognize that the bilateralism of East Europe is not consistent with the rules of the Fund.

It is important that East-West relations should be seen in the framework of international economic relations--including North-South relations--because of their interrelationships. The \$30 billion balance of payments deficit of the non-oil producing developing countries for 1976 is a threat to world economic recovery. This might lead an important part of mankind toward misery and hunger. The volume of credit to the Socialist countries, under these conditions, is not justified. These countries present themselves as privileged partners. The Soviet Union contributes only about \$5 billion to development in the Third World, and this is mostly to Socialist countries. It is time to increase the Socialist program of aid to developing countries, particularly in multilateral institutions. They should help solve the balance of payments deficit problem for the developing countries, and also participate in price stabilization and currency facilities.

We should control and monitor the trend of credits to the Eastern countries. They should not be allowed to receive sales conditions detrimental to Western markets. We should assess the implications of industrial production arrangements which are not determined by market forces and practice and which call for payment in goods in return for capital investment. We must also pay attention to differences in interest rates and the duration of credits to the East. The recourse of the East to bank credit

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could support trade. The Western countries should harmonize their credit policies with respect to the East. There should be a minimum interest rate to be reviewed periodically and understandings on the maximum duration of credit. We should commit ourselves not to delay further in reaching agreement in these issues.

With respect to trade in primary commodities, we have to recognize that raw material shortages are harmful to Western economies. To the extent that we help Eastern countries to exploit their resources, the West gets more raw materials. We should, in addition, coordinate on our raw materials deals.

The rules of the West are sometimes difficult to apply in East-West economic relations. The Eastern European nations operate between planned and market economies. This leads to asymmetrical behavior, which in turn leads to conditions of weakness in industrialized countries. It is easy for the Eastern countries to compete with the West on credit facilities. Today and in the future there will be certain export opportunities for us thanks to a common effort of coordination. We should avoid extending excessive credit facilities to the Eastern European countries, and we need better coordination among ourselves in a number of areas, for example, on large resource enterprises, on common policies to force an opening up of Eastern markets with respect to consumer goods, on trade of industrial products on a stable basis, and on avoidance for dumping. The European Community, Japan and the United States should engage in intensive coordination.

President Ford: I welcome the inclusion of East-West economic relations in our agenda for this meeting. It is our belief that the development of strong economic ties with the countries of Eastern Europe, the Soviet Union and the People's Republic of China represents an essential element in our overall policy. Close economic ties and increased trade enhance our ability to foster restraint and cooperation in the behavior of the communist countries.

I need hardly tell you that today East-West trade represents a multi-million dollar exchange of goods and services between more than a dozen industrialized nations and close to a dozen communist countries. The growth of such trade has been striking. Twelve years ago, in 1963, the level of such trade was only about \$7 billion. At the end of last year, however, the volume of East-West trade had increased to well over \$40 billion, with prospects for continued rapid growth.

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For many years, the role of the United States in East-West trade was negligible. This is no longer the case. The United States has a direct interest in improving our economic relations with the communist countries, and in increasing the level of our trade with them. The level of our East-West trade has been relatively small, in comparison with the trade of most of your countries, and last year amounted to only a little over \$3 billion. By 1980, however, we anticipate that under normalized trading conditions the volume of our trade with the communist countries will rise to more than \$11 billion. Clearly, the role of the United States in East-West trade is a subject not only of national importance, but one of importance and interest to all of you.

My country intends to continue the strengthening of detente through improved economic relations and increased trade with the communist countries. I am sure you are aware that the Trade Act of 1974 contains amendments which restrict the normalization of our trade with these countries by linking the extension of Most-Favored-Nation tariff treatment and the availability of government export credits to improved emigration practices. We are seeking to modify these restrictions, which have proved to be harmful to our own national interest and have not achieved the benefit for which they were intended.

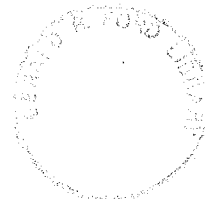
In concluding a long term grain sale agreement with the Soviet Union, we have taken a step which we believe to be economically beneficial, and one which reinforces our overall relationship. We believe this agreement will stabilize the Soviet Union's erratic grain purchases, which in recent years have sent grain and food prices soaring. Most importantly, this agreement should help to dampen undesirable price fluctuations to the benefit of all buyers of US grains.

I would like to emphasize that with respect to our commitment to the USSR, we are free to reduce exports if our own grain supply in any given year falls below 225 million metric tons. At that level or above, we are confident that the United States can meet the needs of its traditional customers.

I would like to add that with regard to our proposal for an international system of grain reserves, our agreement with the Soviet Union is designed to meet only average Soviet demands. It does not provide the Soviets with any assurances on meeting their peak demand, such as occurred this year and in 1972. Such assurance is obtainable only through the international coordination of grain reserves, which would include Soviet participation, as we have proposed.

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You are aware that parallel to the conclusion of our grain agreement with the Soviet Union we have been conducting negotiations with the USSR on the purchase and shipment of oil. I want to assure you that any agreement we may reach with the Soviets on oil will in no way threaten the cooperation on energy matters now established among the developed consuming nations. In fact, we anticipate that the Soviet supply will represent a net addition to the petroleum resources of the West.

We are all aware that increased East-West trade must rely heavily on credits extended to the communist countries to finance their imports from the industrialized Western world. We do not believe, however, that it is economically wise, nor in the general interest, for us to compete among ourselves in providing low cost credits to the communist countries. We believe that it is preferable for us to harmonize the credits extended to these countries, and to set rates which are more reflective of the market. An important first step in this direction can be taken by concluding the Gentlemen's Agreement, on meaningful terms.

I know you agree with me that in the area of East-West economic relations, as in the other areas that we are considering at this important meeting, we must work closely together to ensure that our policies are consistent and in the mutual interest of all concerned. We stand ready to consult closely with you in the conduct of our economic and trade relations with the communist countries. We hope that you will be ready to join with us in such consultations. By working closely together in this area, I am convinced that we can continue the fruitful development of East-West economic relations, which play an essential role in further progress toward detente.

Chancellor Schmidt: I support the Gentlemen's Agreement on export credits and I hope reservations can be overcome. Others take it for granted that there will be an understanding on this.

Prime Minister Wilson: I agree with the lines of Prime Minister Moro, President Ford and Chancellor Schmidt with respect to the Gentlemen's Agreement.

President Giscard: With respect to the harmonization of credit facilities, I should like us to bear in mind two factors. One, we already have existing agreements, and we cannot modify these. The only steps we can take concern new agreements. Two, there are the issues of the duration, rate and certain elements of the repayments arrangements. Harmonization must concern all elements. For the time being, there is no harmonization on duration or repayments. We favor negotiations, but we cannot agree unless the negotiations cover all elements of credit arrangements.



Prime Minister Wilson: Our main problem is that we do not know the terms provided by others. The USSR frequently plays countries off against one another. They try to talk interest rates down. They say someone else is offering a better deal. If you don't believe them and you reject their offer, and they happen to be telling the truth, you don't get the deal. If they lie, and you go along with them, then you get involved in a process of undercutting. It is useful to know what the others are doing. Romania plays this game too.

President Ford: There seems to be a high degree of unanimity on the need for a Gentlemen's Agreement. We strongly favor it. If we don't put it in the Communique we lose the impact of what we are seeking to accomplish. If we put it in, we tell the Soviets that the industrialized countries in the future intend to do something about it. They should know of the unanimity at this meeting. It would lose impact if we leave it out.

Chancellor Schmidt: I agree with President Ford. In these arrangements the old deals would not be submitted. So, Valery, one of your points is easily covered. This paragraph is in the Carlton group draft--paragraph 12.

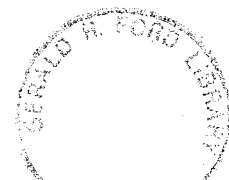
President Ford: All we need is a two line sentence that we will intensify efforts to achieve prompt conclusions of negotiations now underway to reach a Gentlemen's Agreement on export credits.

Chancellor Schmidt: I agree. We need a conclusion of the negotiations now underway concerning export credits, deleting the word "Gentlemen's Agreement."

President Giscard: Yes, I suggest we add this statement by Chancellor Schmidt. What shall we call this document? The Declaration of Rambouillet, or how about the Rambouillet Declaration?

President Ford: I understand there are two matters which are still problems

Minister Fourcade: Yes, there are two sentences which are problems. They are in brackets. The first is a detailed discussion of what we should achieve in trade negotiations. Some ministers felt it was not a good idea to go into such detail and that this did not add much to acceleration of the Tokyo Round. The second sentence was a Japanese proposal designed to achieve maximum possible level of total liberalization.



Chancellor Schmidt: Seems to me that both sentences are valid. We should express both themes. I move we suppress the brackets and sustain both sentences. If we include them, it will give an affirmative message. It will give people the impression that we are interested in substance rather than just words.

President Giscard: All we can say is that we want to accelerate the negotiations, not take a different stance. Might I remind Chancellor Schmidt that this is a Community issue. All we can do is to reiterate what we have decided.

Chancellor Schmidt: Surely we can say something about specifics, and that is not inconsistent with our mandate. We have agreed to the Tokyo Declaration, after all.

President Giscard: Why don't we put at the end of the sentence on specifics items the phrase "in accordance with the mandate agreed to in Tokyo."

Secretary Callaghan: Why don't we put this at the front of the sentence so that it reads "in accordance with the Tokyo Declaration..."

Prime Minister Moro: We welcome rapprochement of the US in France in respect to monetary problems. Minister Fourcade has given information to his colleagues on this. It appears that as regards the arrangements for consultations relating to this issue, there is supposed to be daily consultation among central bankers of the Five, with consultations on a weekly basis by Ministers or their representatives. We would like these consultations to be expanded to Italy: from a political point of view this would be helpful.

President Giscard: We understand the problem of Italy. With the agreement of the US delegation we could replace the number of Five by the phrase "central banks concerned" or "number concerned," and this will be decided in January.

Prime Minister Moro: Couldn't we just say the "ministers concerned" or "central bankers concerned." In any case this probably will not be published.

Minister Miyazawa: I suggest in the section on monetary issues we delete the brackets around the words "and other appropriate fora."

Chancellor Schmidt: I agree with Mr. Miyazawa.

President Giscard: There also seems to be a problem with paragraph 15 on energy.



President Ford: The US strongly believes that paragraph 15 reflects what we discussed yesterday, and should be included. It is an integral part of yesterday's discussion, indicating that our cooperation is essential. I recommend deletion of the brackets in the third sentence of this paragraph.

President Giscard: If we were asked we would have to spell out that this does not mean the IEA.

Prime Minister Wilson: This indicates that we would continue to cooperate closely, it implies no change.

President Giscard: We should also provide some cooperation with LDC's.

Chancellor Schmidt: That is not in paragraph 15.

President Giscard: But that is a broader dialogue and not only referring to energy.

Secretary Kissinger: We are talking about continuing to cooperate closely. We can make a modification to meet this need.

President Giscard: Okay. We can accept that.

Time is short. Lunch is in five minutes. Then we will have a press conference and then go 200 yards on foot to the city hall. There we will have short statements by each of us. Then we will come back.

President Ford: I should like to thank President Giscard d'Estaing for his hospitality. I am sure we are all most appreciative.

