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ECONOMIC SUMMIT, BONN - 16/17 JULY 1978: PRIME MINISTER'S
BRIEFING MEETING

C.C. Minter Set

Present:

Prime Minister
Chancellor of the Exchequer
Foreign and Commonwealth Secretary
Secretary of State for Trade
Minister of Overseas Development
Sir John Hunt
Sir Michael Palliser
Mr. K.E. Couzens
Sir Jack Rampton
Sir Peter Preston
Mr. Robin Grey
Mr. Michael Butler

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Mr. Stowe
Mr. McCaffrey
Dr. Donoghue
Mr. Cartledge

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The following is a summary of the points which were made at the Prime Minister's briefing meeting for the Bonn Summit on 14 July.

Growth and Energy

The United States has decided for domestic reasons to revise growth targets downwards and to reduce her deficit, which weakens the dollar. Given that the deficit is going to be cut, it is best that this should happen through a reduction of US oil imports. The current high level of oil imports is partly due

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to the fall in domestic US oil production resulting from artificially low domestic prices. A rise in the US domestic oil price, which it will be possible for President Carter to effect after May 1979, would thus both reduce imports and remove a major and objectionable subsidy. Although the high level of US oil imports arguably keeps world oil prices high, a high level of prices could be maintained, even if US imports were reduced, by a cut back in production by Saudi Arabia. But oil prices are in any case likely to rise, perhaps by up to 10%, at the end of 1978. This will have a deflationary impact on the world economy.

The UK line on these issues at Bonn should be that although it is not wholly in our own national interest, we agree that world oil prices should be kept down and that we shall join in efforts to achieve this while recognising that US must be the prime mover.

On growth, Chancellor Schmidt is likely to have taken contingency decisions already, which could be finally approved by his full cabinet at the end of July. But he will first wish to see what the US can offer. The US will wish to press the Germans and the Japanese to absorb more US exports.

The UK objective on growth should be to press the FRG to adopt measures which would add 1% to the FRG's GDP. If these measures are not introduced until the beginning of 1979, they will not produce any effect until the middle of next year: they should therefore be introduced as soon as possible. So far as Japan is concerned, the UK's aim should again be to press for a commitment to measures which would add 1% to the Japanese GDP. The focus of UK pressure on Japan should be on the Japanese surplus rather than on growth as such, although we do want the Japanese to increase

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their imports of manufactures. Mr. Fukuda is likely to stall at Bonn, and the Japanese are not likely to change their policies until they are frightened into doing so by the possibility of action rather than just words from her trading partners. Effective pressure on Japan should be the primary objective for the Economic Summit.

Aid

President Giscard's reference, in his recent press interview, to new moves on aid to the developing countries might mean that he had something similar in mind to the proposal under consideration by the ODM for a transfer of SDRs by the developed to the developing countries. The FRG and the US would be very hostile to a proposal on these lines. The Germans, in particular, are not only opposed to creating additional liquidity in this way, but object in principle to using SDRs for development aid purposes. Instead of pursuing this idea at the Summit and provoking immediate German opposition, it will be better to concentrate on pressing for a substantial increase in - and preferably for doubling - the World Bank's capital. The UK should urge the strengthening of the relevant passage in the communiqué. The SDR proposal should be pursued by the Chancellor of the Exchequer with his fellow Finance Ministers.

The Japanese have decided that the doubling of their aid over a 3-year period should be in dollar terms, which will detract by up to 24% from the impact of this measure. They should be pressed to reconsider this (further figures will be provided on this point).

UK tactics on this issue should be reviewed at the end of the first day of the Summit. Given the negative FRG attitude to aid matters (except in the commercial context, on which the UK, in common with others, is more vulnerable)

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and the very disappointing US record so far, the aid issue could be the main thrust of the UK contribution to the Summit: this could take the form both of pressing for the doubling of the World Bank's capital and for a more general commitment by participants to use existing mechanisms to achieve an effective transfer of resources.

Currency Stabilisation

The relevant passage of the draft communique is acceptable. The US could perhaps be pushed further on the financing of their currency deficit and on mobilising their foreign currency resources. The Chancellor could discuss the scheme for European Monetary Reform, and the possibility of linking such a scheme in some way with the dollar, with his fellow Finance Ministers, but the European Scheme should not be brought into the main discussion at Bonn. The main argument on currency stabilisation was likely to be between the Americans and the Japanese, and the UK can stand aside.

Trade

The US may use the Summit to push for some further advance on the position paper on MTNs agreed on 13 July at Geneva. Mr. Strauss has, however, publicly welcomed the document, and described it as representing substantial progress; this weakens the case for any substantive discussion of MTNs at the Summit. Both the US and Canada, however, are likely to raise agricultural products in the MTN context: the UK can leave it to them to do this, and remain on the sidelines in discussion. The French reserve on the Geneva document may be a tactical move for use against the Americans at Bonn.

General Tactics

Depending on the way discussion goes, it may be appropriate for the Prime Minister to intervene at some stage, to argue

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against a "bazaar" approach to the Summit's deliberations, and for an approach orientated towards concerted action for common objectives. He could stress the adverse political consequences of a disappointing outcome to the Summit. This intervention might be most effective if made half-way through the meeting; until that point, the Prime Minister could hold his hand.

It was agreed that, even if the Summit Meeting did not produce spectacular results, the fact that it was taking place in itself constituted a positive factor so far as the world economy was concerned: the world situation and the prospects for an end to recession would be worse if the Summit had not happened. It was also agreed that the exertion of effective pressure on Japan constituted the single most important objective at Bonn.

The Prime Minister said that he would like to meet Chancellor Schmidt for half an hour before the first session on 16 July - either earlier in the morning of that day, or on the evening of 15 July.

John

14 July, 1978.

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