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DLB 11/5/2019

FOIA

F16-011

BIERGANNIS

45

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
243463	PAPER	DRAFT PRESIDENT'S STATEMENT	10	ND	B1

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Freedom of Information Act - [5 U.S.C. 552(b)]

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THE CANCUN SUMMIT

5)

President Reagan will attend a summit on economic cooperation and development in Cancun, Mexico, October 22-23. There will be twenty-one other participants,* including all Ottawa summit participants except Italy. The USSR declined to attend, and Cuba was not invited at US suggestion.

The eleven co-sponsoring governments have promised that the Summit will be open and informal, with no agenda and no communique, although as host Lopez Portillo may summarize suggestions which "emerge." All Ottawa participants should agree that this format be preserved and that there be no structured preparation such as papers and prior meetings of personal representatives. This agreement would be followed by foreign ministers on August 1-2 at the only preparatory meeting for Cancun.

The U.S. views the Cancun summit as a useful opportunity to meet with most of the more significant heads of government for an exchange of views on global economic problems. The U.S. will want to discuss energy, food, trade, population, and global ecology problems. Other participants will have other problems to suggest.

Such a discussion should be more beneficial than the political dialogue in the U.N. which, for 18 months, has focused on procedures and agenda for the proposed "global negotiations" on all major international economic problems (See separate paper).

Except for the U.S. and the U.K., the Ottawa countries view Cancun and global negotiations as politically necessary parts of a multilateral dialogue among economically interdependent nations. They believe that such a dialogue creates a better atmosphere in which to carry out their bilateral and regional objectives. They would like to include the U.S. in a general endorsement of global negotiations so this will no longer be an issue during the Cancun summit. Prime Minister Trudeau would like to take credit for thus having "settled" the issue in Ottawa.

The United Kingdom shares US views on Cancun and global negotiations. However, the U.K. will chair the EC from July 1 to December 31 and therefore may temper its public support to accommodate the other EC members.

*Algeria, Austria, Bangladesh, Brazil, Canada, China, France, FRG, Guyana, India, Ivory Coast, Japan, Mexico, Nigeria, Philippines, Saudi Arabia, Sweden, Tanzania, UK, Venezuela, and Yugoslavia (co-sponsors underlined).

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GDS 6/19/87

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Authority NSC/State Waivers

by dr 11/12/09

6) Energy Affiliate

[Ask Rud Poats, NSC, to provide points
on U.S. position]

7) Polish Debt

[Ask. Rud Poats, NSC, to supply Points
President will make About U.S. Position
Toward Aid to Poland in general and
New Credits at this time in particular]

8)

AUTOMOBILES

[To be Reorganized]

Talking Points on the Japanese Unilateral
Restraint on Auto Exports

- o The decision by Japan to restrain unilaterally its auto exports to the United States was based on that government's assessment of its long term interests. Protectionist sentiment was growing in this country, particularly in the U.S. Congress, in response to the depressed state of the domestic industry.
- o The U.S. auto industry is vital to the U.S. economy. The industry and its suppliers account for 8 1/2 percent of our gross national product and employ 4 million, or 1 out of 6, American workers. In 1980, domestic auto production dropped to the lowest point in 19 years and unemployment reached a peak of nearly 1 million. Domestic manufacturers lost \$4.3 billion and suffered a cash flow deficit of \$9 billion.
- o The cash flow deficit occurred just at the time when the auto industry was in the midst of a \$80 billion investment program necessary for it to regain international competitiveness.
- o Japanese import penetration increased to well over 20 percent of the U.S. market before the domestic pressures for Congressional action became overwhelming. This was a level far higher than the Japanese import penetration in any other Ottawa Summit members' auto market.
- o The Japanese government's decision provided U.S. auto manufacturers the breathing space necessary for this retooling effort. In addition, the decision avoided quota legislation which could have precipitated world-wide retaliatory measures.

Japanese Auto Export Restraints: The Japanese have announced the following auto export restrictions. To our knowledge no others are planned.

United States: In Japanese FY 1981 (4/1/81-3/31/82), MITI will restrain auto exports to 1.68 million units. In JFY 1982, this level will be adjusted by 16.5 percent of the change in total U.S. auto sales as forecasted by MITI. Further separate measures will be taken with respect to Japanese exports to Puerto Rico (contained in the U.S. Customs zone) and exports of "vans" (station wagons and utility vehicles) which for statistical purposes the Japanese Auto Manufacturers Association define as cargo carrying vehicles and the U.S. defines as passenger vehicles. The necessity for a third year of restraints will be considered by the Japanese at the end of the second restraint year.

Canada: During JFY 1981, Japan will limit its exports of passenger cars to 174,000 units, a 6 percent decline from JFY 1980, but a 10 percent increase over the 1980 calendar year level. Before the end of JFY 1981, Japan and Canada will consult on the need for a second restraint year.

EC: Due to restrictions on Japanese auto imports by the UK, France and Italy, Japan will not implement an EC-wide export restraint. Japan has taken specific measures with regard to Germany and Belgium.

Germany: Calendar year 1981 passenger car exports are "forecast" not to exceed the 1980 level by more than 10 percent.

Belgium: We believe that Japan has agreed to reduce its 1981 calendar year exports by around 7 percent from the 1980 level.

Truck Cab Chassis: At Japan's request we are currently attempting to schedule a date to begin formal consultations under GATT Article XXII.

Administration's Auto Program: The program rests primarily on the Economic Recovery Program, which should stimulate U.S. auto sales and assist the industry to raise investment capital. Other steps include the modification or elimination of 34 U.S. safety and emission regulations, antitrust actions and other measures.

U.S. Auto Sales: The U.S. auto market continues to suffer from a sluggish economy and high interest rates. Total 1981 car sales through May are down 2.3 percent from the equivalent period last year. Sales of U.S.-made cars declined 3.4 percent while imported car sales increased 0.6 percent from the same period last year. The number of Japanese-made cars sold here has declined by 0.7 percent. On a seasonally adjusted basis, U.S. auto sales through May were running at a 9.3 million unit annual rate (9.0 million autos were sold in the United States in 1980). Sales are likely to remain low until this fall when the U.S. economy is expected to improve and interest rates are expected to decline. The Administration forecasts total U.S. auto sales to be 9.5 million units in 1982.

Japanese Auto Import Penetration
(Percent of Market)

	<u>1979</u>	<u>1980</u>
United States	16.6	21.3
Canada	8.0	14.8
United Kingdom	10.8	11.9
France	2.2	2.9
West Germany	5.7	10.5
Italy	--	.1
EC Market	6.9	9.0

OISP/ITA
U.S. Department of Commerce
July 2, 1981

9)

S T E E L

We have had difficult steel trade problems with our major trading partners - particularly the EC - since the 1960's, but they have become especially acute since 1977. Mismanagement of steel trade issues could threaten US-EC trade relations in general and could develop into a major foreign policy problem.

Since 1977, U.S. steel imports have been subject to price and quantitative monitoring under the Trigger Price Mechanism (TPM). This system permits the Commerce Department to respond rapidly if imported steel mill products are sold in the U.S. below fair value (dumping) or if injurious increases in steel imports are the result of subsidization or dumping.

Our steel import monitoring represents a multilateral understanding with our major trading partners - Japan, Canada, and the EC - on the root causes of steel trade distortions. The TPM, which was suspended and then reinstated in 1980, is designed to detect and discourage unfair trade in steel for a period of up to five years. During this time, the European industry is to restructure itself to eliminate inefficient excess capacity. Simultaneously, the U.S. industry will begin modernizing to restore its international competitiveness.

The TPM has not closed our market to steel imports. Total U.S. steel mill product imports grew this year about 4.0 percent through May, compared with last year. Imports from Canada grew by 44 percent and those from the EC were up 15 percent (after sharp declines in 1979 and 1980). These increases reflect our first quarter GNP growth, Canada's efficient production, and strong demand for certain products in relatively short supply here (oil drilling pipe and tube).

The EC Commission is trying to promote the European industry's readjustment. Mandatory and voluntary production quotas are being implemented. The EC has also decided, pending final agreement by West Germany and Belgium, to end all subsidy payments to its steelmakers by the end of 1985. Certain payments will be phased out sooner. These subsidies have propped up inefficient capacity. If the EC can carry out this timetable and reduce its steelmaking capacity, it will go a long way toward meeting our steel industry's concerns about unfair European competition. Failure would put us under strong domestic pressure either to confront the EC over their subsidies or to adopt more restrictive steel trade measures.

10) U.S. Contributions to LDCs in Non-AID Areas

[To be provided by Adrian Basora in
State]

IV. REMARKS/STATEMENT-COMMUNIQUE

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THE SECRETARY OF COMMERCE
Washington, D.C. 20230

JUL 8 1981

MEMORANDUM FOR Craig L. Fuller
Deputy Assistant to the President

SUBJECT: Briefing Papers for the Ottawa Summit

Thank you for the opportunity to comment on the Ottawa Summit briefing papers to be used in preparation for Canadian Prime Minister Trudeau's visit. We have reviewed all of the papers but have comments on only two issues; steel and East-West trade.

Steel

In the fourth paragraph, a new sentence should be added before the sentence beginning; "These increases reflect . . ." This sentence is needed to explain why EC imports declined during 1979 and 1980. The additional sentence should read; "The declines in imports from the EC in 1979 and 1980 were caused in part by pending dumping cases."

The final sentence of the fifth paragraph should read; "However, as long as EC steel companies benefit from subsidies, we will be under strong domestic pressure either to confront the EC over their subsidies, or to enforce our countervailing duty laws which do not offer us much discretion." This change is needed because US producers can bring countervailing duty complaints as long as European producers are benefitting from subsidies. These actions are made likely if imports increase significantly.

East-West Issues

The objective paper on East-West issues does not reflect the position the President will adopt either on Thursday or soon thereafter. In fact, this objective paper cannot be drafted until after the President has made his decision. For example, the paper states that the President should press hard for three specific outcomes. The second outcome should be stated more clearly, based on whether the President accepts option 2 or 3 of the securities control paper. The third outcome cites the concern over vulnerability to Soviet blackmail through manipulation of trade dependence. This is certainly not adequate if the President should decide to actively oppose the Yamal pipeline, a decision he will make sometime this week.

KT-066/11 #13184 E.O. 13526 Sec 3.3(b)
BY AK NARADATE 11/5/2019

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Source(s) R. W. Muller (State)

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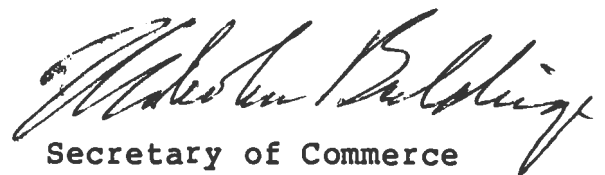
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The fallbacks are totally inadequate. The action agency discussions have not focused on a COCOM policy group being put together. Also, the point dealing with systematic discussions of western energy security will be dependent again on the outcome of the President's decisions.

The background papers will also have to be refined (redone) in light of the President's decisions. For example, much more specificity needs to be put into the paragraph on strategic trade controls in the issues section of the paper. Whatever option he selects will allow that specificity to be added.

The President's objective paper is premature. Although the background paper may only need to be redrafted after the President's decision, the objectives paper should not even be attempted until those decisions are made. This is particularly the case since the response Secretary Haig and Secretary Weinberger provide as a result of the Monday NSC meeting will also have a bearing on how the objectives paper, as well as the President's talking points, are put together.

Also attached are several pages with typographical errors. These are included to help in your overall preparations for the summit.


Secretary of Commerce

Attachment

~~SECRET~~

II. Scenario and Schedule

(A) Major Themes and Relationship to Issues

Economic Summitry - The Ottawa Summit is the seventh of these annual meetings which have now been hosted by each of the participants. (President of the European Community is an eighth participant.) President Giscard and Chancellor Schmidt suggested the meetings in 1975 to deal with the effects of the first oil crisis.

Schmidt, the only remaining charter member of the Summit, believes the meetings have been particularly useful in concluding the Tokyo Round of Trade Negotiations in 1979 and generally maintaining an open and expanding international economic system despite oil-induced economic setbacks.

The last three Summits at Bonn, Tokyo and Venice focused on energy and involved negotiations on increasingly specific and detailed items, such as oil import targets and coal production goods.

The Ottawa Summit - Themes and Issues - This Summit is characterized by new personalities (five of the eight participants), general economic stagnation (except Japan), and political uncertainties, especially about U.S. and to a lesser extent French foreign policies.

The Venice Summit in 1980 created the expectation that North-South issues and foreign aid would be major themes at Ottawa. Trudeau, the Ottawa host, has stressed these themes and traveled in the past year to Africa, Latin America and Asia. Economic difficulties in the Summit countries and U.S. economic policies since January have shifted more attention to macroeconomic and trade issues, especially interest rates, exchange rates, fiscal policies and protectionism. Strategic considerations led the United States to raise the issue of trade and financial relations with the Soviet Union. Energy issues are less prominent by contrast to recent Summits, but no less important. While considerable consensus and progress have been achieved in energy, vulnerability persists.

Political issues have not been central to previous Summits, although they have always been discussed on the margins of these meetings and were discussed in a separate session at Venice on Afghanistan. Schmidt has indicated that he expects to discuss political issues at Ottawa, especially arms control. Poland is sure to be a central interest. Trudeau and the European Community will raise political aspects of North-South issues, especially in Central America and southern Africa.

U.S. Objective - Given economic difficulties and political uncertainties, the Summit could be contentious and downbeat, reflecting disarray and lack of confidence among the Summit countries. Thus, the United States seeks, above all to:

-- inspire confidence and optimism about the prospects for international economic recovery (bringing to bear internationally what has happened domestically where 46% of the American people believe things will get better, compared to 24% two years ago);

-- affirm a sense of fundamental political unity among the major industrial countries, all of which share democratic political institutions, market economic systems and a belief in human dignity and freedom (stressing thereby that these countries are more than a power alignment or a group of economic competitors);

-- convey a firm and confident strategic view of the basic challenges to the economic and security interests of the industrial democracies, and a sensitivity to the requirement for consultation and cooperation among the industrial countries (making clear that America [is leading but] cannot progress along).

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U.S. Strategy - To achieve these objectives, the United States should:

-- stress the priority of the task of domestic economic recovery which depends primarily on domestic (by implication, not international) policies and is the basis for:

- resisting protectionism and launching new trade initiatives;
- providing more assistance to developing countries;
- reducing dependence on Soviet markets or resources;
- accelerating energy investment and transition from oil to other energy resources.

-- focus attention on the accomplishments and potential of economic systems in the Summit countries (by implication, contrasting them with the communist alternative) and the new determination and confidence of the people (especially in the U.S. and France) to succeed;

-- direct discussion and conclusions to ^{reach} common goals over the next two-three years where agreement exists (lowering inflation, increasing employment and productivity, further liberalizing trade, reestablishing the balance with the Soviet Union, integrating the developing countries into the international system, etc.) as a way to contain short-term disagreement over choice of policy instruments (adjusting interest or exchange rates, imposing restraint measures on trade, timing of arms control discussions, etc.);

-- reassure other countries about U.S. policies toward the Soviet Union and use the fundamental agreement among these countries on East-West security issues (as reflected in Rome NATO meeting and Suzuki visit to the United States) to put economic differences in context and to elevate the significance of restoring economic growth as a basic component of security for these countries;

-- suggest that our flexibility and sensitivity to preserve consensus and unity on East-West issues, including East-West trade, be reciprocated by flexibility on the part of some of the other countries on North-South issues, particularly a willingness not to insist on premature procedural and institutional initiatives, such as the Global Negotiations and expanding World Bank energy lending, when these initiatives are not substantively ripe.

Macroeconomic Issues

Objectives

Macroeconomic issues will be the most contentious and thus threaten to subvert the theme of unity at the Summit unless they are handled properly. The United States seeks two specific outcomes:

-- Agreement that whatever is said about the economic situation in the communique or by the Summit leaders when they return home it must be positive. Short-term policy differences should be put into perspective by highlighting agreement on basic objectives -- reduced inflation, increased investment, productivity and employment, and increased efficiency in government and other sectors of the society.

-- Affirmation of international cooperation among the Summit countries premised on the primary role of domestic responsibilities and policies and a sensitivity to the need for continuous explanation and understanding of what each industrial country is seeking to achieve through its policy. The United States should indicate that it is prepared to discuss and explain its policies in any forum at any time, and, would support a series of discussions ^{among} ~~over~~ the various sectors of our societies about the prospects and problems of growth in the 1980s.

Context

As for past Summits, the Chairman of the U.S. Council of Economic Advisers prepared the background document for the macroeconomic discussions. The paper, generally supported by others in the preparatory discussions, concluded that countries need a more medium-term orientation of policies, less "fine-tuning," and greater emphasis on free markets. All agreed that strong anti-inflation policies must be maintained. More recently, however, the French have argued that reducing employment should be a co-equal policy objective -- and led the fight on this issue at the June OECD Ministerial.

The overriding issue in this area is U.S. interest rates, yet the debate reflects a broader lack of understanding and confidence in the Administration's Economic Recovery Program, along with differing political constraints each leader faces in dealing with his or her own domestic situation, making it convenient to blame the United States.

The Europeans and the Japanese see the Economic Recovery Program as a combination of tight money and easy fiscal policy.

-- They attribute the strength of the dollar to our high interest rates, and complain that the corresponding

depreciation of their currencies has increased import prices and inflation, delaying their own economic recovery and making unemployment painfully high.

- To prevent further depreciation of their currencies, they must increase their interest rates, reducing investment and driving their economies into a prolonged recession.

The basic foreign criticism is that the Economic Recovery Program is placing the entire burden of fighting inflation on monetary policy.

- Tax relief is judged to be inflationary (they take a Keynesian view of the tax cuts).
- The operating procedures of the Fed are considered by many to be unnecessarily destabilizing in terms of interest rates, and this combines with announced U.S. policy not to intervene in exchange rate markets to create fears of instabilities.
- U.S. inflationary momentum is expected to take a long time to dissipate, causing a collision between rising demand for money and more slowly growing supply.

The other Summit participants will applaud the objectives of our Program but will strongly challenge specifics and international side effects.

- In Germany, Schmidt faces growing pressure from the left to adopt expansionary policies to reduce unemployment. The Bundesbank, however, wants to reduce inflation and supports U.S. monetary restraint. Schmidt is caught in the middle and finds U.S. policy a convenient target.
- The French are concerned because a strong dollar and U.S. anti-inflation policies conflict with Mitterand's desire to increase social transfers, raise the minimum wage, and nationalize key industries.
- The British publicly support our policies, partly since they resemble Mrs. Thatcher's efforts. But they fear their recovery will be thwarted by slow European growth and high interest rates.
- The Italians complain that their exchange rate depreciation is worsening their already large external deficits, soaring budget deficit (8% of GNP, largest of the Summit countries), and high inflation. But they are unlikely to tighten domestic policy in any event.

- The Canadian dollar has remained stable. Only recently have the Canadians begun to criticize U.S. interest rates focusing on the effects on LDC borrowing costs.
- The Japanese have reduced interest rates as ours rose. Recently, they too have stated that a falling yen will worsen their inflation performance.

Two basic recommendations have emerged from other Summit participants:

- Tighten U.S. fiscal policy (postpone the tax cuts) to reduce financial market pressures and thus lower interest rates; or,
- Cooperative foreign exchange market intervention to prevent unwanted depreciation of European currencies (a recommendation spearheaded by the French).

Key Points to Make

-- The strength of the dollar is not solely a function of U.S. interest rates, but also the strong U.S. balance of payments, growing market confidence in the U.S. commitment to anti-inflation policies (and skepticism about European commitments), and worry over political unrest in Europe.

-- The United States does not gain from high interest rates but is also suffering severe pains in key domestic industries affected by high interest rates -- automobiles, homebuilding, the thrifts and small businesses.

-- The Economic Recovery Program is designed to do exactly what they want, to lower U.S. inflation and interest rates while promoting a strong domestic economy which will be needed to absorb European and Japanese exports.

-- The deficit in the U.S. budget is smaller than in many other countries (1% of GNP compared to 4.5% in Germany and 2% in Japan) and we are reducing it further, making additional cuts when expenditures increase as they did in March and April because of higher interest rates.

-- My budget program is proceeding on course in Congress and we are progressively convincing the skeptics that this package will work.

The above points are developed further in special papers at Tab on interest rates, fiscal policy and exchange market intervention.

Trade Issues

Objectives

The United States seeks to contain short-term conflicts over trade, urge adjustments through basic domestic economic recovery measures, and direct attention to longer-term goals for trade discussions in the 1980s in the context of economic expansion.

-- To present and explain our view that the problem of adjustment to changing world trade patterns can best be met by policies which reduce economic rigidities and improve macro-economic performance in our domestic economies.

-- To insist that protectionist policies are unacceptable means of dealing with current economic problems.

-- To seek agreement substantially reducing or eliminating official export credit subsidies by the end of the year.

-- To seek to reaffirm the commitment of Summit participants to full and effective implementation of the Multilateral Trade Negotiations agreements.

-- To reaffirm the U.S. view that agreements must also be reached on issues left unresolved at the close of the MTF, particularly a GATT Safeguards Code.

-- To take the leadership to establish and prepare for another round of trade negotiations in the 1980s, supporting the OECD Van Lennep study, a proposed GATT ministerial meeting in 1982, and raising the possibility of setting a deadline for the beginning of a new round of trade negotiations.

Context

The Japanese prepared the trade background paper for the Summit (suggested by the United States to put the Japanese out front on the trade issue while resisting European pressures to isolate Japan).

The European Community has sought to make Japanese trade policies an issue at the Summit. At its recent meeting in Luxembourg (June 29-20), the European Council "reviewed the Community's relations with Japan and . . . agreed that in Ottawa strong emphasis should be paid to a broad span of questions relating to the smooth function² of the open and multilateral world trading system, including excessive concentration of exports in sensitive sectors." The Council further "stressed the need for effective openness of domestic markets, in particular the Japanese market" and called for the "fullest possible use of (the Community's) bargaining power as an entity." The Europeans are concerned in particular about Japanese automobiles, semi-conductor and electronic consumer exports to Europe.

The European Community, which had a \$20b. trade deficit with the U.S. in 1980 and is plagued by internal disputes over agriculture, fisheries and steel, has also criticized the United States. The Germans are particularly critical of ^{the} U.S.-Japan automobile agreement^{*}, while the British complain about U.S. natural gas prices and the boost this gives to U.S. exports of synthetic fibers and chemical products to Europe. The Community further complains about the U.S. trigger price mechanism (TPM) which sets a price below which foreign imports of steel face anti-dumping actions.

Multilateral trade issues include unfinished business from the Multilateral Trade Negotiations (MTN), especially the failure thus far to agree to a safeguards code. Such a code would establish common practices for dealing with surges in imports, in the absence of which discriminatory arrangements and an erosion of market-determined international competition have become more common, particularly in Europe. Other issues include:

- The Multi-fiber Agreement where the Europeans are seeking a substantial tightening of market access for developing country exports of textile, apparel and synthetic fibers.
- An agreement on official export credits which France rejects.

The issues most relevant to a new round of trade negotiations in the 1980s include:

- Services is a rapidly expanding area of international trade but one which is still heavily regulated.
- Investment incentives and performance requirements (export performance and minimum local content requirements) often have serious trade distorting effects.

North-South Issues

Objectives

-- To protect U.S. concern for the economic well-being of all countries and especially for the poorer ones.

-- To make clear that a revitalization of the productive base of the world economy is necessary to continue to expand the role of public aid and institutions in development.

-- To convince others that our aid efforts should focus on the key development problems of food production, population growth and energy.

-- To stress that the principal responsibility for development lies in sound domestic economic policies in LDCs as well as industrial countries.

-- To note the importance and encourage the role of private trade, investment and finance in development.

-- To stress that freedom from outside intervention is the right of every sovereign state and a requirement for political stability and economic progress.

-- To postpone a decision on global negotiations and urge a serious approach to any global dialogue with LDCs based on close cooperation among the industrial countries to influence the objective and agenda of this dialogue.

-- To resist a premature commitment to expanded lending by the World Bank for energy development, stressing that the Bank has a vital role to play but that additional public financing may not be necessary if Bank reorients programs to facilitate flows of private capital.

Context

The Venice Summit instructed the personal representatives to review and report to the next (Ottawa) Summit on aid policies and procedures and other contributions to the developing countries. The special interest in North-South issues was motivated by the desire to capitalize on LDC dissatisfaction with the Soviet Union, to attract more OPEC money into development, to increase aid commitments, and to launch a new global dialogue between North and South.

Early drafts of the North-South paper adopted a mea culpa approach bemoaning the inability of Summit countries to "do more" for LDCs. In the preparatory discussions, the United States

emphasized a more realistic approach, starting from the serious economic problems in both industrial and developing countries and stressing the substantial role of private sector trade, investment and finance as a complement to official aid. The paper now reflects a general consensus on the relationship of growth and aid and the need to concentrate bilateral aid on food, energy, population, and manpower training; it also contains, however, continuing disagreements on specific issues, such as launching of global negotiations in New York and the endorsement of an expanded World Bank lending program for energy development.

Discussion of aid policies and other relations with LDCs have focused in the past on aid, the role of global institutional reform, and the adverse impact of defense expenditures and security assistance in LDCs (all points stressed by the Brandt Commission report).

Other Summit participants will be pushing for new commitments on aid. We should avoid commitments but note that despite our budgetary constraints, our proposed FY 82 program is 16% higher than FY 81. We favor concentration of limited aid resources in key areas -- food production, population, energy and institutional development and technology transfer and adaptation.

The U.S. believes that while aid remains a vital factor for many of the poor countries, more attention should be given to non-aid measures. Trade, investment and financial flows are many times the magnitude of official aid flows. In 1980 non-oil LDCs exported \$90 billion worth of manufactured goods, earning four times the amount of official aid in that year. Investment flows are still the most efficient means of transfer of technology and management training to LDCs. And commercial banks supplied \$37 billion of loans to LDCs in 1979 or nearly twice the level of official aid flows. The U.S. makes substantial contributions in all of these areas, even though it compares poorly with other donors in terms of aid as a percentage of GNP. The U.S. also contributes by pursuing growth-oriented, non-inflationary domestic policies which lower the costs of U.S. exports to LDCs and expand opportunities for LDC exports to the U.S. (There is a special paper on U.S. contributions in these non-aid areas at Tab .)

will The Canadian paper concludes that global negotiations to restructure the world economy are necessary and unavoidable. In 1970 the UN General Assembly called for such negotiations to establish a central forum within the UN system but the developing countries insisted that this forum be given direct authority over the specialized agencies, including the IMF and World Bank. The United States believes that such a forum could affect the specialized institutions adversely and seeks to postpone further consideration of Global negotiations until after the Cancun Summit, hoping through Cancun to reorient the discussion away from these institutional issue toward more substantive issues of trade, investment, and so forth.

The U.S. believes that meeting the security needs of LDCs contributes to development in two important ways: it enhances the prospect of domestic-political stability and it frees resources for economic development. By making a substantial contribution to the security of LDCs, the U.S. makes it possible for other Summit countries to concentrate more on economic assistance.

Other Summit countries see themselves as far more dependent on LDCs for energy, resources and markets than the U.S.; they are therefore more accommodating to the LDCs and favor global negotiations for political reasons with no intention to follow through on substantive issues.

Other Summit countries feel that the new U.S. Administration is indifferent to LDCs and is imposing East-West criteria on North-South relations. They criticize U.S. military assistance and U.S. policy directions to South Africa, Central American, and the Middle East.

Canadian Prime Minister Trudeau is strongly sympathetic to LDC aspirations, as well as committed to a "successful" Ottawa Summit. Trudeau can build prestige both domestically and internationally if he can win concessions from the U.S., such as agreement to resume preparations for Global Negotiations.

French President Mitterand may seek to establish his leftist credentials internationally by taking progressive positions on North-South issues at the Summit, but he will also need to demonstrate his ability to deal constructively with other major Western countries, including the U.S.

Support for U.S. positions, especially on Global Negotiations, has come from the UK and Germany in the past. German positions, however, have recently become more accommodating of LDC demands and the UK is constrained in its support of the U.S. by its participation in the EC of which it will be President from July through December.

Cooperative approaches to Cancun should be welcome to all participants, except Italy. Italy can be expected to complain bitterly as the only Ottawa Summit country not invited to Cancun.

Key Points to Make

-- The United States is encouraged by the substantive consensus reflected in the North-South paper prepared for the Summit, which brings together in an agreed fashion the emphasis on foreign aid and on the importance of world economic recovery and growth. This consensus reaffirms:

-- the critical role of domestic policies in both the industrial and developing countries and the need for commitments and serious sacrifice at this level if international cooperation is to succeed;

8)

AUTOMOBILES

[To be Reorganized]

Talking Points on the Japanese Unilateral
Restraint on Auto Exports

- o The decision by Japan to restrain unilaterally its auto exports to the United States was based on that government's assessment of its long term interests. Protectionist sentiment was growing in this country, particularly in the U.S. Congress, in response to the depressed state of the domestic industry.
- o The U.S. auto industry is vital to the U.S. economy. The industry and its suppliers account for 8 1/2 percent of our gross national product and employ 4 million, or 1 out of ~~6~~⁵ American workers. In 1980, domestic auto production dropped to the lowest point in 19 years and unemployment reached a peak of nearly 1 million. Domestic manufacturers lost \$4.3 billion and suffered a cash flow deficit of \$9 billion. *in manufacturing (total of 20.4 million)*
- o The cash flow deficit occurred just at the time when the auto industry was in the midst of a \$80 billion investment program necessary for it to regain international competitiveness.
- o Japanese import penetration increased to well over 20 percent of the U.S. market before the domestic pressures for Congressional action became overwhelming. This was a level far higher than the Japanese import penetration in any other Ottawa Summit members' auto market.
- o The Japanese government's decision provided U.S. auto manufacturers the breathing space necessary for this retooling effort. In addition, the decision avoided quota legislation which could have precipitated world-wide retaliatory measures.

~~SECRET~~

ATTACHMENT


Document No. 01980688 ^{sc}

UNCLASSIFIED UPON REMOVAL
OF CLASSIFIED ENCLOSURES

WHITE HOUSE STAFFING MEMORANDUM

DATE: July 6, 1981 ACTION/CONCURRENCE/COMMENT DUE BY: NOON JULY 8

SUBJECT: Ottawa Summit

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	<input type="checkbox"/>	<input type="checkbox"/>	JAMES	<input type="checkbox"/>	<input type="checkbox"/>
MEESE	<input type="checkbox"/>	<input checked="" type="checkbox"/>	MURPHY	<input type="checkbox"/>	<input checked="" type="checkbox"/>
BAKER	<input type="checkbox"/>	<input type="checkbox"/>	NOFZIGER	<input type="checkbox"/>	<input type="checkbox"/>
DEAVER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	WILLIAMSON	<input type="checkbox"/>	<input type="checkbox"/>
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ALLEN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CANZERI	<input type="checkbox"/>	<input type="checkbox"/>
ANDERSON	<input checked="" type="checkbox"/>	<input type="checkbox"/>	FULLER (For Cabinet)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BRADY	<input type="checkbox"/>	<input type="checkbox"/>	HICKEY	<input type="checkbox"/>	<input type="checkbox"/>
DOLE	<input type="checkbox"/>	<input type="checkbox"/>	HODSOLL	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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FRIEDERSDORF	<input type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
GARRICK	<input type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
GERGEN 	<input checked="" type="checkbox"/>	<input type="checkbox"/>	USTR	<input type="checkbox"/>	<input type="checkbox"/>
HARPER	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ROGERS	<input type="checkbox"/>	<input type="checkbox"/>

Remarks: Attached are preliminary rough drafts for the President's Ottawa briefing book. You have seen the related background papers before. These papers are related but different--intended more directly to prepare the President for the presentation of U.S. views. Would you please provide comments--particularly on papers that are more evidently near ~~completion--by noon Wednesday~~. We will wish to take these into account in preparations for the Thursday Trudeau visit. The next draft of Ottawa Summit Presidential briefing papers will be circulated at the end of the week. Thank you.

*Have not completed reviewing the material.
D Mergen / QB*

Richard G. Darman
Deputy Assistant to the President
and Staff Secretary
(x-2702)

~~SECRET~~

ATTACHMENT

da 11/1/2019

Document No. 01980685

WHITE HOUSE STAFFING MEMORANDUM

DATE: July 6, 1981

ACTION/CONCURRENCE/COMMENT DUE BY: NOON JULY 8

SUBJECT: Ottawa Summit

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	<input type="checkbox"/>	<input type="checkbox"/>		JAMES	<input type="checkbox"/>
MEESE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	→	MURPHY	<input checked="" type="checkbox"/>
BAKER	<input type="checkbox"/>	<input type="checkbox"/>		NOFZIGER	<input type="checkbox"/>
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ANDERSON	<input checked="" type="checkbox"/>	<input type="checkbox"/>	see comments 7/8	FULLER (For Cabinet)	<input checked="" type="checkbox"/>
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GERGEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	still cooking	USTR	<input type="checkbox"/>
HARPER	<input checked="" type="checkbox"/>	<input type="checkbox"/>	will call	ROGERS	<input type="checkbox"/>

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No comments
-FN-

Ottawa
for...
7/8
US 7/8

Richard G. Darman
Deputy Assistant to the President
and Staff Secretary
(x-2702)

~~SECRET~~

UNCLASSIFIED ON REMOVAL
OF CLASSIFICATION ENCLOSURES

OK 11/1/2015

Document No. 019806SS

WHITE HOUSE STAFFING MEMORANDUM

DATE: July 6, 1981

ACTION/CONCURRENCE/COMMENT DUE BY: NOON JULY 8

SUBJECT: Ottawa Summit

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ANDERSON	<input checked="" type="checkbox"/>	<input type="checkbox"/>	FULLER (For Cabinet)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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(x-2702)

~~SECRET~~

ATTACHMENT

Document No. 019806SS

UNCLASSIFIED
OF CLASSIFIED

ok 11/11/2019

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DATE: July 6, 1981

ACTION/CONCURRENCE/COMMENT DUE BY: NOON JULY 8

SUBJECT: Ottawa Summit

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STOCKMAN	<input type="checkbox"/>	<input type="checkbox"/>	WEIDENBAUM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
ALLEN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CANZERI	<input type="checkbox"/>	<input type="checkbox"/>
ANDERSON	<input checked="" type="checkbox"/>	<input type="checkbox"/>	FULLER (<i>For Cabinet</i>)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BRADY	<input type="checkbox"/>	<input type="checkbox"/>	HICKEY	<input type="checkbox"/>	<input type="checkbox"/>
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GARRICK	<input type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
GERGEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	USTR	<input type="checkbox"/>	<input type="checkbox"/>
HARPER	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ROGERS	<input type="checkbox"/>	<input type="checkbox"/>

URSOMARSO

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Richard G. Darman
Deputy Assistant to the President
and Staff Secretary
(x-2702)

I. OVERVIEW/OBJECTIVES

NSC (1-2pp.) (To Be Provided)

State Department (3 pp.) (To Be Provided)

III. BACKGROUND PAPERS

(A) Multilateral Issues

Macroeconomic Issues

Objectives

Macroeconomic issues will be the most contentious and thus threaten to subvert the theme of unity at the Summit unless they are handled properly. The United States seeks two specific outcomes:

-- Agreement that whatever is said about the economic situation in the communique or by the Summit leaders when they return home it must be positive. Short-term policy differences should be put into perspective by highlighting agreement on basic objectives -- reduced inflation, increased investment, productivity and employment, and increased efficiency in government and other sectors of the society.

-- Affirmation of international cooperation among the Summit countries premised on the primary role of domestic responsibilities and policies and a sensitivity to the need for continuous explanation and understanding of what each industrial country is seeking to achieve through its policy. The United States should indicate that it is prepared to discuss and explain its policies in any forum at any time, and, would support a series of discussions ^{among} ~~over~~ the various sectors of our societies about the prospects and problems of growth in the 1980s.

Context

As for past Summits, the Chairman of the U.S. Council of Economic Advisers prepared the background document for the macroeconomic discussions. The paper, generally supported by others in the preparatory discussions, concluded that countries need a more medium-term orientation of policies, less "fine-tuning," and greater emphasis on free markets. All agreed that strong anti-inflation policies must be maintained. More recently, however, the French have argued that reducing employment should be a co-equal policy objective -- and led the fight on this issue at the June OECD Ministerial.

The overriding issue in this area is U.S. interest rates, yet the debate reflects a broader lack of understanding and confidence in the Administration's Economic Recovery Program, along with differing political constraints each leader faces in dealing with his or her own domestic situation, making it convenient to blame the United States.

The Europeans and the Japanese see the Economic Recovery Program as a combination of tight money and easy fiscal policy.

-- They attribute the strength of the dollar to our high interest rates, and complain that the corresponding

depreciation of their currencies has increased import prices and inflation, delaying their own economic recovery and making unemployment painfully high.

- To prevent further depreciation of their currencies, they must increase their interest rates, reducing investment and driving their economies into a prolonged recession.

The basic foreign criticism is that the Economic Recovery Program is placing the entire burden of fighting inflation on monetary policy.

- Tax relief is judged to be inflationary (they take a Keynesian view of the tax cuts).
- The operating procedures of the Fed are considered by many to be unnecessarily destabilizing in terms of interest rates, and this combines with announced U.S. policy not to intervene in exchange rate markets to create fears of instabilities.
- U.S. inflationary momentum is expected to take a long time to dissipate, causing a collision between rising demand for money and more slowing growing supply.

The other Summit participants will applaud the objectives of our Program but will strongly challenge specifics and international side effects.

- In Germany, Schmidt faces growing pressure from the left to adopt expansionary policies to reduce unemployment. The Bundesbank, however, wants to reduce inflation and supports U.S. monetary restraint. Schmidt is caught in the middle and finds U.S. policy a convenient target.
- The French are concerned because a strong dollar and U.S. anti-inflation policies conflict with Mitterand's desire to increase social transfers, raise the minimum wage, and nationalize key industries.
- The British publicly support our policies, partly since they resemble Mrs. Thatcher's efforts. But they fear their recovery will be thwarted by slow European growth and high interest rates.
- The Italians complain that their exchange rate depreciation is worsening their already large external deficits, soaring budget deficit (8% of GNP, largest of the Summit countries), and high inflation. But they are unlikely to tighten domestic policy in any event.

- The Canadian dollar has remained stable. Only recently have the Canadians begun to criticize U.S. interest rates focusing on the effects on LDC borrowing costs.
- The Japanese have reduced interest rates as ours rose. Recently, they too have stated that a falling yen will worsen their inflation performance.

Two basic recommendations have emerged from other Summit participants:

- Tighten U.S. fiscal policy (postpone the tax cuts) to reduce financial market pressures and thus lower interest rates; or,
- Cooperative foreign exchange market intervention to prevent unwanted depreciation of European currencies (a recommendation spearheaded by the French).

Key Points to Make

-- The strength of the dollar is not solely a function of U.S. interest rates, but also the strong U.S. balance of payments, growing market confidence in the U.S. commitment to anti-inflation policies (and skepticism about European commitments), and worry over political unrest in Europe.

-- The United States does not gain from high interest rates but is also suffering severe pains in key domestic industries affected by high interest rates -- automobiles, homebuilding, the thrifts and small businesses.

-- The Economic Recovery Program is designed to do exactly what they want, to lower U.S. inflation and interest rates while promoting a strong domestic economy which will be needed to absorb European and Japanese exports.

-- The deficit in the U.S. budget is smaller than in many other countries (1% of GNP compared to 4.5% in Germany and 2% in Japan) and we are reducing it further, making additional cuts when expenditures increase as they did in March and April because of higher interest rates.

-- My budget program is proceeding on course in Congress and we are progressively convincing the skeptics that this package will work.

The above points are developed further in special papers at Tab on interest rates, fiscal policy and exchange market intervention.

Trade Issues

Objectives

The United States seeks to contain short-term conflicts over trade, urge adjustments through basic domestic economic recovery measures, and direct attention to longer-term goals for trade discussions in the 1980s in the context of economic expansion.

-- To present and explain our view that the problem of adjustment to changing world trade patterns can best be met by policies which reduce economic rigidities and improve macro-economic performance in our domestic economies.

-- To insist that protectionist policies are unacceptable means of dealing with current economic problems.

-- To seek agreement substantially reducing or eliminating official export credit subsidies by the end of the year.

-- To seek to reaffirm the commitment of Summit participants to full and effective implementation of the Multilateral Trade Negotiations agreements.

-- To reaffirm the U.S. view that agreements must also be reached on issues left unresolved at the close of the MTF, particularly a GATT Safeguards Code.

-- To take the leadership to establish and prepare for another round of trade negotiations in the 1980s, supporting the OECD Van Lennep study, a proposed GATT ministerial meeting in 1982, and raising the possibility of setting a deadline for the beginning of a new round of trade negotiations.

Context

The Japanese prepared the trade background paper for the Summit (suggested by the United States to put the Japanese out front on the trade issue while resisting European pressures to isolate Japan).

The European Community has sought to make Japanese trade policies an issue at the Summit. At its recent meeting in Luxembourg (June 29-30), the European Council "reviewed the Community's relations with Japan and . . . agreed that in Ottawa strong emphasis should be paid to a broad span of questions relating to the smooth functioning of the open and multilateral world trading system, including excessive concentration of exports in sensitive sectors." The Council further "stressed the need for effective openness of domestic markets, in particular the Japanese market" and called for the "fullest possible use of (the Community's) bargaining power as an entity." The Europeans are concerned in particular about Japanese automobiles, semi-conductor and electronic consumer exports to Europe.

The European Community, which had a \$20b. trade deficit with the U.S. in 1980 and is plagued by internal disputes over agriculture, fisheries and steel, has also criticized the United States. The Germans are particularly critical of the U.S.-Japan automobile agreement, while the British complain about U.S. natural gas prices and the boost this gives to U.S. exports of synthetic fibers and chemical products to Europe. The Community further complains about the U.S. trigger price mechanism (TPM) which sets a price below which foreign imports of steel face anti-dumping actions.

Multilateral trade issues include unfinished business from the Multilateral Trade Negotiations (MTN), especially the failure thus far to agree to a safeguards code. Such a code would establish common practices for dealing with surges in imports, in the absence of which discriminatory arrangements and an erosion of market-determined international competition have become more common, particularly in Europe. Other issues include:

- The Multi-fiber Agreement where the Europeans are seeking a substantial tightening of market access for developing country exports of textile, apparel and synthetic fibers.
- An agreement on official export credits which France rejects.

The issues most relevant to a new round of trade negotiation in the 1980s include:

- Services is a rapidly expanding area of international trade but one which is still heavily regulated.
- Investment incentives and performance requirements (export performance and minimum local content requirements) often have serious trade distorting effects.

- Developing countries are increasingly important participants in world trade markets and are rapidly developing their export capacity in the area of manufactures. While working to reduce restrictions on the exports of developing countries, the United States will seek to ensure that the more advanced LDCs undertake trade commitments commensurate with their stage of economic development and that the benefits of differential trade treatment are directed increasingly to the poorer LDCs.
- An increasing number of governments are negotiating bilateral arrangements to assure supplies of oil and raw materials, giving rise to a creeping bilateralism which overrides multilateral trade commitments and distorts trade patterns.
- Differences in national antitrust laws with respect to treatment of international restraint agreements give rise to inequalities in standards applied to companies operating in the international market place.

The United States has resisted the tendency to gang up on Japan and maneuvered to have Japan prepare the background paper for the Summit discussions. This compels Japan to meet the criticism it faces but puts it in a constructive rather than defensive role. There may be some value in keeping the Japanese on the point. One way to do this is to pick up on Prime Minister Suzuki's call for a new round of global trade negotiations during his recent tour of European capitals (called the Suzuki Round in the press).

Key Points to Make

- The United States seeks to bolster and expand the commitment of other participants to a more open system of international trade.
- The U.S.-Japan automobile agreement is not a classical protectionist agreement nor does it shift undue burden to other countries (special talking points are at Tab).
- The recent U.S. decision on shoes reflects U.S. determination to limit orderly marketing arrangements to temporary purposes.
- The United States urges the conclusion of a Multi-fiber Arrangement that recognizes the legitimate interests of LDC exporters, an export credit arrangement by the end of this year, and a safeguards code for GATT.
- The United States wonders if it is useful to pick up on Prime Minister Suzuki's call for a new round of trade negotiations in the 1980s and set a date and some tentative goals for these negotiations.

North-South Issues

Objectives

-- To protect U.S. concern for the economic well-being of all countries and especially for the poorer ones.

-- To make clear that a revitalization of the productive base of the world economy is necessary to continue to expand the role of public aid and institutions in development.

-- To convince others that our aid efforts should focus on the key development problems of food production, population growth and energy.

-- To stress that the principal responsibility for development lies in sound domestic economic policies in LDCs as well as industrial countries.

-- To note the importance and encourage the role of private trade, investment and finance in development.

-- To stress that freedom from outside intervention is the right of every sovereign state and a requirement for political stability and economic progress.

-- To postpone a decision on global negotiations and urge a serious approach to any global dialogue with LDCs based on close cooperation among the industrial countries to influence the objective and agenda of this dialogue.

-- To resist a premature commitment to expanded lending by the World Bank for energy development, stressing that the Bank has a vital role to play but that additional public financing may not be necessary if Bank reorients programs to facilitate flows of private capital.

Context

The Venice Summit instructed the personal representatives to review and report to the next (Ottawa) Summit on aid policies and procedures and other contributions to the developing countries. The special interest in North-South issues was motivated by the desire to capitalize on LDC dissatisfaction with the Soviet Union, to attract more OPEC money into development, to increase aid commitments, and to launch a new global dialogue between North and South.

Early drafts of the North-South paper adopted a mea culpa approach bemoaning the inability of Summit countries to "do more" for LDCs. In the preparatory discussions, the United States

emphasized a more realistic approach, starting from the serious economic problems in both industrial and developing countries and stressing the substantial role of private sector trade, investment and finance as a complement to official aid. The paper now reflects a general consensus on the relationship of growth and aid and the need to concentrate bilateral aid on food, energy, population and manpower, training; it also contains, however, continuing disagreements on specific issues, such as launching of global negotiations in New York and the endorsement of an expanded World Bank lending program for energy development.

Discussion of aid policies and other relations with LDCs have focused in the past on aid, the role of global institutional reform, and the adverse impact of defense expenditures and security assistance in LDCs (all points stressed by the Brandt Commission report).

Other Summit participants will be pushing for new commitments on aid. We should avoid commitments but note that despite our budgetary constraints, our proposed FY 82 program is 16% higher than FY 81. We favor concentration of limited aid resources in key areas -- food production, population, energy and institutional development and technology transfer and adaptation.

The U.S. believes that while aid remains a vital factor for many of the poor countries, more attention should be given to non-aid measures. Trade, investment and financial flows are many times the magnitude of official aid flows. In 1980 non-oil LDCs exported \$90 billion worth of manufactured goods, earning four times the amount of official aid in that year. Investment flows are still the most efficient means of transfer of technology and management training to LDCs. And commercial banks supplied \$37 billion of loans to LDCs in 1979 or nearly twice the level of official aid flows. The U.S. makes substantial contributions in all of these areas, even though it compares poorly with other donors in terms of aid as a percentage of GNP. The U.S. also contributes on pursuing growth-oriented, non-inflationary domestic policies which lower the costs of U.S. exports to LDCs and expand opportunities for LDC exports to the U.S. (There is a special paper on U.S. contributions in these non-aid areas at Tab .)

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Canadian Prime Minister Trudeau is strongly sympathetic to LDC aspirations, as well as committed to a "successful" Ottawa Summit. Trudeau can build prestige both domestically and internationally if he can win concessions from the U.S., such as agreement to resume preparations for Global Negotiations.

French President Mitterand may seek to establish his leftist credentials internationally by taking progressive positions on North-South issues at the Summit, but he will also need to demonstrate his ability to deal constructively with other major Western countries, including the U.S.

Support for U.S. positions, especially on Global Negotiations, has come from the UK and Germany in the past. German positions, however, have recently become more accommodating of LDC demands and the UK is constrained in its support of the U.S. by its participation in the EC of which it will be President from July through December.

Cooperative approaches to Cancun should be welcome to all participants, except Italy. Italy can be expected to complain bitterly as the only Ottawa Summit country not invited to Cancun.

Key Points to Make

-- The United States is encouraged by the substantive consensus reflected in the North-South paper prepared for the Summit, which brings together in an agreed fashion the emphasis on foreign aid and on the importance of world economic recovery and growth. This consensus reaffirms:

-- the critical role of domestic policies in both the industrial and developing countries and the need for commitments and serious sacrifice at this level if international cooperation is to succeed;

-- the dynamic interaction that takes place between a productive world economy and the capability of the world community to provide official assistance for development. Thus a meaningful approach to development requires both economic recovery and a continuing emphasis on aid to the poorest countries. (If pressed, the President should take the offensive and point out America's contribution to development in the trade, investment and commercial lending sectors. The Europeans look as bad in these areas as the U.S. in aid.);

-- concentration of foreign aid on the poorer countries, and on a limited number of sectors such as energy, food, population and technical training. All aid, especially to the poorest, should be aimed at self-sufficiency and tying poor people and poor sectors of the economy into the commercial sector at both the domestic and international levels;

-- Support for the international financial institutions which, however, need to make efficient use of their resources during the present period of austerity.

-- The United States seeks to continue cooperation among the Ottawa, and now Cancun, Summit countries to define the real issues behind such procedural and institutional proposals, ~~as~~ as the Energy Affiliate and Global Negotiations.

-- We recommend that the Bank study how it might use its existing energy program more effectively to leverage more private capital and that the Summit countries continue to evaluate the need for further public financing;

-- We oppose committing ourselves to Global Negotiations now since we cannot agree on the procedural issues in New York and this disagreement can only destroy the chance we have at Cancun to focus on other issues;

-- We urge the Summit countries to make the most of the chance offered by Cancun, to stick together on the original ground rules for this meeting and to commit themselves to coordinate with one another and with moderate developing countries to define objectives and initiatives for global discussions (not negotiations since this refers to the New York stalemate).

East-West Issues

[Following Papers Need to be
Reorganized, Revised and
Tightened]

The President's Objective on East-West Issues

This is the President's issue. It was added to the Summit agenda at our request. It was not enthusiastically welcomed by the other Summit countries. But it is clearly important in terms of US emphasis on the larger underlying political theme of the Summit, namely industrial country unity in the face of Soviet challenges to Western security. And the fact that other Summit countries view it with skepticism can be turned to our advantage. The President should push hard on this issue in his initial discussions at the Summit and use this pressure to back off the other Summit countries on other issues, such as North-South, which are less agreeable to the US.

At the outset, therefore, the President should press hard for three specific outcomes:

1. recognition that economic cooperation with the East has not produced the benefits envisioned in the early and mid 1970s;
2. agreement that strategic controls under the new security conditions must be tightened and in specific areas, such as technology, expanded;
3. expression of concern about vulnerability to Soviet blackmail through manipulation of dependence, citing the Yamal pipeline as a specific example.

As a fall-back, the President could accept what we seek in the first place, namely agreement on a number of follow-up discussions to pursue tighter controls in strategic areas and confidence-building in other areas:

1. meeting of a high-level COCOM policy group (which has not been done for 25 years), and
2. agreement to enter systematic discussions of Western energy security, including not only protection against vulnerability to Soviet supplies but cooperative development of alternative Western supplies.

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