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# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection:** BAILEY, NORMAN: Files

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**Date:** 10/13/00

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Zuber/F99-080/1

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. Memo	Bailey to William Clark, re: Versailles Summit, 1 p.	4/29/82	P1/F1
2. Memo	Clark to Alexander Haig, Donald Regan, re: The Versailles Summit, 2 p.	n.d.	P1/F1
3. Memo	Henry Nau to Clark, re: Versailles Summit Preparatory Meeting April 24-25, 4 p.	4/27/82	P1/F1
4. Memo	Copy of Item #2, 2 p.	n.d.	P1/F1
5. Memo	Bailey to Clark, re: memorandum from Secretary Haig to the President Concerning the..., 1 p.	4/9/82	P1/F1
6. Memo	Haig to Reagan, re: Versailles and Bonn Summits, 1 p.	[3/29/82]	P1/F1
7. Paper	The June Summits, 6 p.	[4/7/82]	P1/F1
8. Paper	Overview: "North/South" Issues, 3 p.	[5/4/82]	P1/F1
9. Paper	Global Negotiations, 2 p.	n.d.	P1/F1
10. Paper	Bilateral Issues Paper: Japan, 2 p.	[4/30/82]	P1/F1
11. Paper	Bilateral Issues : Italy, 2 p.	[4/22/82]	P1/F1
12. Paper	Your Meeting with British Prime Minister Thatcher at the Versailles Summit, 2 p.	[4/21/82]	P1/F1

### RESTRICTION CODES

**Presidential Records Act - [44 U.S.C. 2204(a)]**

- P-1 National security classified information [(a)(1) of the PRA].
  - P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
  - P-3 Release would violate a Federal statute [(a)(3) of the PRA].
  - P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
  - P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
  - P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].
- C. Closed in accordance with restrictions contained in donor's deed of gift.

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

- F-1 National security classified information [(b)(1) of the FOIA].
- F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
- F-3 Release would violate a Federal statute [(b)(3) of the FOIA].
- F-4 Release would disclose trade secrets or confidential commercial or financial information [(b)(4) of the FOIA].
- F-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA].
- F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
- F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].

MEMORANDUM

NATIONAL SECURITY COUNCIL

April 27, 1982

MEMORANDUM FOR DENNIS BLAIR

FROM: HENRY R. NAU *HRN*  
SUBJECT: Comments on Scene-Setting Speech

*Versailles*

There is no question in my mind that your draft of the East-West speech is a much better version than the State draft. I have made a few insertions in the text but mainly my points would be as follows:

-- We have to explain how the decline of Soviet empire can occur without the Soviet Union, out of weakness and paranoia, alleging that the West is behind the decline and then striking back at the West with force. In short, for many Europeans, a declining Soviet Union is a dangerous one. Hence, they seek to prop up its decline. How do we convince them that we can manage the decline peacefully and put economic pressure on the Soviets? Our answer has to be in several parts: 1) we seek no alteration of any postwar agreement (that includes Yalta, which we do not mention specifically obviously, but also Helsinki); 2) we seek to rebuild political trust with the Soviets through arms control arrangements based on military balance hopefully at reduced levels; 3) we need to apply economic pressure in the process to ensure that we can stay within some range of Soviet ability to spend on defense; 4) once we develop new trust, we can continue to promote economic and human contacts. Now, NATO missile deployments, arms control talks, etc. all serve the purpose of reestablishing a basis for economic and human contact which can help the Soviets adjust to the mistakes of the past. This answer suggests the problem may not be chronic and the Soviets may change. That's a little less ideological and more acceptable to European ears.

*we don't?  
The President  
does*

*So what*

-- The speech should draw out the contrast over the past ten years in Soviet and U.S. military spending. Speaking only about Soviet power or weakness doesn't establish this relative perspective. This perspective is more important than trying to parse out where the military balance stands precisely at the moment. It's the momentum of the Soviet buildup and the political perception it has aroused that we are concerned about. This discussion should note that while U.S. spending declined, Europe's, or at least some countries', spending (such as Germany) did not. This gives allies their due and

suggests that the U.S. is now only catching up in paying its fair share of defense. This makes the U.S. buildup look less ominous and only indirectly risks giving the impression that the allies are justified in doing less.

-- The speech should clarify whether we seek to restrict Soviet access to resources and credit in the West or only ensure that it is on market terms. If the latter and we cannot stop subsidies, we reserve the right, of course, to advocate quantitative limits.

-- The speech should make something out of Europe's new power. Europe's leaders talk only about how weak Europe is. No one, because there is no political spokesman for Europe, speaks with perspective on the unprecedented economic and political revival of Europe and the fact that it is coming back as a global power of sorts. That may cause U.S. some difficulties but it's also a basis for getting Europe to be more responsible.

-- Finally, the speech should say something about economic problems and relations within the West. If we seek some limits on East-West trade and credits, the offset is better economic policies and more growth and employment in the West. We should also note the much greater economic and political strength of the West in comparison to the Soviet Union. While Reagan, unlike Carter, does not believe that you can match Soviet military power with only economic and political advantages, he does believe massively in the proven capacity of our societies to provide more political freedom and economic opportunity than has been true in any other system in human history.

cc: C.Tyson  
N.Bailey  
P.Dobriansky  
S.Kraemer  
C.Lord  
C.Shoemaker  
B.Stearman  
R.Fontaine  
G.Kemp  
B.Linhard  
A.Myer  
D.Pipes  
F.Wettering

*Daily*

MEMORANDUM

NATIONAL SECURITY COUNCIL

April 27, 1982

MEMORANDUM FOR DENNIS BLAIR

FROM: HENRY R. NAU *HN*

SUBJECT: Comments on London and Bundestag Speeches

Surprisingly, the London speech is by far the better one. It was the one that, it was feared, might turn out to be trite. But it reads exceptionally well and has an intellectual structure which is honest and thought-provoking. The section on democracy and the search for justice (pp. 8a-9) needs a lot of work. We should talk here about the attainment of racial justice in the U.S. Many Europeans remember the 1960s in America -- the violence, the sit-ins, etc. They don't know about the achievements of the 1970s. We will need to include examples from other societies.

*check with [unclear] [unclear] [unclear]*

The Bundestag speech needs a lot of work.

-- The first 10-12 pages says very little of any value. The salute to German democracy is good and can be improved. We should consult some German scholars and see if we could find a reference about German democracy that is meaningful to informed elites in Germany but has not yet reached the general public abroad. German democracy is such a fragile historical flower that, while the reference to 1848 is important, it is little comfort given what followed. We need some recent evaluation of democracy in Germany by Germans which strikes an encouraging and hopeful note about the new roots that have been laid.

-- The part on the preservation of peace has got to go back and paint the picture of the threat, the Berlin crises, the Wall, etc. It should not oversimplify but also develop ambiguities and then in that setting hail the courage of European and Atlantic leaders -- Adenauer, deGaulle, Churchill, de Gasperi, etc. -- that stood up and were counted. I would drop the phrase "crusade for peace." Talk about trite! It should then go on to point out that only in the framework of the vision of these men did Europe come back to cope so miraculously with its economic and social recovery. In the 1950s, following recovery, Europe set its sight on new targets.

Men like Schuman, Monnet, and again Adenauer and de Gasperi created a new economic and eventually, they hoped, political union. Today Europe has discovered that economic well-being alone is not enough and that new forms of political union and democracy are difficult to establish. Enthusiasm for the Community has waned, and the new generation of Europeans is searching for new visions.

-- Against this background, this speech should go on to note that what has preserved this opportunity for European life and idealism to flourish, after the scars of centuries of wars, is peace. There has been no war in Central Europe. This has been accomplished largely by means of deterrence and ironically nuclear weapons. Or does anyone doubt that the Berlin crisis of 1949 would have led to another devastating conventional war in Europe? Why didn't the Soviets shoot down the planes conducting the Berlin airlift? The fear of nuclear weapons stopped them, the same fear that we all share -- the leaders of the world and the peace demonstrators. The President has to address, I believe, the core of deterrence in some fashion as the following:

"Try to understand one simple fact. It is because we fear the terrible consequences of nuclear war that the aggressor also fears it. He can't win under such circumstances and so he never tries. If we seek to escape from that fear by pretending that there are no more aggressors and that we can somehow expunge nuclear weapons, we help him to escape that fear. Now he may try to attack thinking he can win. Can anyone in Europe doubt that there are still aggressors in this world? After all of the aggression that Europe has known in the last century? No, I cannot guarantee that nuclear weapons can forever safeguard the peace. I can only observe that they have done so in Europe for 35 years, that you and I are dedicated with every fiber in our being to sustain the effort to see that they continue to do so in the future, and that if we foolheartedly convince ourselves that we can escape the terrible fear of nuclear weapons, we give up the only hope we have for total peace in Europe in the decades ahead."

-- The last 35 years therefore suggest that if we work at it we can continue to make the technology of destruction serve the purpose of peace. It won't happen if we run away from the task. We can't get rid of the fact of nuclear weapons. And if we can't do that, don't we have to do everything we can to make sure they are never used. And if we succeed, can't we look forward to many more decades of peace in central Europe, which hasn't been possible for centuries?

-- From this plateau, then, the speech goes into the defense and arms control material following p.12.

cc: N.Bailey                   D.Pipes  
S.Kraemer                   C.Shoemaker  
B.Linhard                   B.Stearman  
C.Lord  
A.Myer

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Newspapers 2212

~~4/19~~

THE WHITE HOUSE  
WASHINGTON

Judge.

4/12

Recommend this memo  
not be signed.

Henry Han says all  
items are already  
being addressed and  
this memo is un-  
necessary.

JH



NATIONAL SECURITY COUNCIL

April 8, 1982

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*10/13/00*

ACTION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *NB*

SUBJECT: Memo to Secretaries Haig and Regan on the Versailles Summit

Attached at Tab I is a memorandum from you to Secretaries Haig and Regan on the Versailles Summit preparations.

RECOMMENDATION:

That you sign the memorandum at Tab I to Secretaries Haig and Regan.

OK \_\_\_\_\_ No \_\_\_\_\_

*These are big covered*

*use*

*man,  
Does Henry  
concur?  
Bailey's  
response  
attached  
right.)*

Attachments

- Tab I Memo to Haig and Regan
- Tab II My Memo of April 1

cc: Tom Reed  
 Don Gregg  
 Henry Nau  
 Gus Weiss  
 Carnes Lord

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## NATIONAL SECURITY COUNCIL

May 4, 1982

ACTION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *NAB*

SUBJECT: Monetary Proposal at Versailles Summit

Last fall, Jelle Zijlstra, who for thirty years headed the Dutch Central Bank and later the very prestigious Bank for International Settlements in Basel, Switzerland, gave the Per Jacobsson Lecture. At that time, he characterized U.S. monetary policy as follows:

"The monetary policy now being pursued in the United States aims at controlling the money supply by regulating the liquidity of the banking system. I need not go into details about the precise technique used. Let me just say that it is based on an assumed stability of the relationships between the various components of the money supply ( $M_1$ ,  $M_2$ , . . . .  $M_x$ ) and their respective required reserves. This cannot but lead, as it has proved to do in practice, to wide fluctuations in short-term interest rates and at times to very large differences between short-term and long-term rates. This may cause substantial exchange rate movements. Recently, this monetary policy has been subject to severe criticism. To a certain extent, this is understandable. A monetary policy which gives rise to prime rates of 20% at a rate of inflation of around 10%, which pushes up the exchange rate to a level far out of line with the underlying balance-of-payments position, and which thus has serious dislocating effects internationally, simply asks to be called into question . . . ."

". . . the 1960s saw a growing disequilibrium in international payments, consequent on the deficit on the United States' balance of payments. The dollar became overvalued and the United States found it increasingly difficult to meet its obligations to convert the dollar (into gold). It is my firm conviction that a devaluation of the dollar combined with a substantial increase in the price of gold (as provided for in Article IV of the then Articles of Agreement of the IMF) would have meant a real improvement of the situation. The stability of the

international monetary system would have been considerably strengthened. As a result it would not have been necessary to conclude, too early, that the Bretton Woods system could not be maintained, as was done in 1973 on the eve of the great oil crisis."

"Nevertheless, the present position cannot be termed satisfactory. The central banks of the principal countries hold vast reserves of gold. The Netherlands Bank, for instance, has gold holdings which, at current market prices, account for 66% of its total reserves. It is most frustrating that, sale against foreign exchange apart, there is no systematic manner in which this reserve component can be used. I feel that it is necessary for us, within the Group of Ten and Switzerland, to consider ways to regulate the price of gold, admittedly within fairly broad limits, so as to create conditions permitting gold sales and purchases between central banks as an instrument for a more rational management and deployment of their reserves. On the occasion of the annual meeting of the IMF in Belgrade in 1979 this was brought up, but regrettably insufficient agreement could be reached to make even a modest start with regulating the gold price in the free market. It is my firm conviction that relatively small-scale interventions, though not forestalling the subsequent explosion of the gold price, would at least have reduced it to more manageable proportions. Now that the turbulent emotions seem to have quieted down, we would be wise to reflect anew and without prejudice on these subjects."

I recommend that the President ask our partners at Versailles what their opinion is of the system suggested by Mr. Zijlstra and, if the reaction is favorable (I have little doubt it will be), that a group be established to consider it. This would commit us to nothing but would directly address European concerns -- concerns we should share, since they are doing great damage to our relationship.

Henry Nau recommends against sending the proposed memo to Secretaries Haig and Regan. Beryl Sprinkel's initiative to improve economic policy coordination is already underway. It has attracted favorable European interest and reflects our willingness to address exchange rate issues in the context of their willingness to discuss longer-term convergence of basic economic policies. This is the only acceptable context in which this Administration should even consider exchange rate intervention. For without convergence of longer-term policies,

U.S. intervention will only alleviate the costs of inflation in other countries (such as France) and thereby encourage further inflation abroad.

RECOMMENDATION:

That you sign the attached memo (Tab I) to Secretaries Haig and Regan.

OK \_\_\_\_\_ No \_\_\_\_\_

Attachment

Tab I Memo to Haig/Regan

cc: Gus Weiss  
Roger Robinson

THE WHITE HOUSE

3128

WASHINGTON

MEMORANDUM FOR THE HONORABLE ALEXANDER M. HAIG, JR.  
The Secretary of State

THE HONORABLE DONALD T. REGAN  
The Secretary of the Treasury

SUBJECT: Versailles Summit Initiative

As you know, one of the most divisive elements in our relationship with our Summit Allies is over monetary policy, both domestic and international. Last fall, Jelle Zijlstra, the highly respected Dutch central banker and Chairman and President of the Bank for International Settlements, suggested a method for stabilizing the international monetary system:

"Nevertheless, the present position cannot be termed satisfactory. The central banks of the principal countries hold vast reserves of gold. The Netherlands Bank, for instance, has gold holdings which, at current market prices, account for 66% of its total reserves. It is more frustrating that, sale against foreign exchange apart, there is no systematic manner in which this reserve component can be used. I feel that it is necessary for us, within the Group of Ten and Switzerland, to consider ways to regulate the price of gold, admittedly within fairly broad limits, so as to create conditions permitting gold sales and purchases between central banks as an instrument for a more rational management and deployment of their reserves. On the occasion of the annual meeting of the IMF in Belgrade in 1979, this was brought up, but regrettably insufficient agreement could be reached to make even a modest start with regulating the gold price in the free market. It is my firm conviction that relatively small-scale interventions, though not forestalling the subsequent explosion of the gold price, would at least have reduced it to more manageable proportions. Now that the turbulent emotions seem to have quieted down, we would be wise to reflect anew and without prejudice on these subjects."

The President may wish to ask the opinion of our Summit Allies on this suggestion and, if their response is favorable, propose the establishment of a working group to study it. Your comments would be most welcome.

FOR THE PRESIDENT:

William P. Clark

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RECEIVED 07 MAY 82 12

TO CLARK

FROM BREMER

DOCDATE 06 MAY 82

*Versailles*

KEYWORDS: FRENCH SUMMIT

SIG

SUBJECT: VERSAILLES SUMMIT / BRIEFING MATERIALS FOR PRES TRIP TO FRANCE 4 + 6  
JUN

ACTION: PREPARE MEMO FOR CLARK DUE: 10 MAY 82 STATUS S FILES

FOR ACTION

FOR CONCURRENCE

FOR INFO

NAU

RENTSCHLER

TYSON

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## DEPARTMENT OF STATE

Washington, D.C. 20520

May 6, 1982

UNCLASSIFIED UPON REMOVAL OF  
CLASSIFIED ENCLOSURE(S) *dlb 10/13/00*~~UNCLASSIFIED  
with SECRET ATTACHMENT~~MEMORANDUM FOR MR. WILLIAM P. CLARK  
THE WHITE HOUSE

SUBJECT: Versailles Summit

To follow up the discussion at the SIG on April 28, the attached draft memorandum outlines the process for insuring that all agencies submit final cleared briefing papers by May 17. It also announces the next meeting of the SIG on the Versailles Summit on May 18 at 4:00 PM.

We request that this be circulated to other agencies.

*L. Paul Bremer, II*  
L. Paul Bremer, II  
Executive Secretary

Attachment:  
As stated.

UNCLASSIFIED  
~~with SECRET ATTACHMENT~~

MEMORANDUM FOR:

Nancy Bearg Dyke  
Assistant to the Vice President  
for National Security Affairs

L. Paul Bremer III  
Executive Secretary  
Department of State

David Pickford  
Executive Secretary  
Department of Treasury

Robert P. Meehan  
Assistant for Interagency Matters  
Office of the Secretary of Defense

Raymond Lett  
Executive Assistant to the Secretary  
Department of Agriculture

Jean Jones  
Director, Executive Secretariat  
Department of Commerce

William V. Vitale  
Director, Office of the Executive Secretariat  
Department of Energy

William Schneider  
Associate Director for National Security  
and International Affairs  
Office of Management and Budget

Thomas B. Cormack, Executive Secretary  
Central Intelligence Agency

Dennis Whitfield  
Executive Assistant to the USTR

Roger Porter, Special Assistant to the  
President for Policy Development

James Burnham, Special Assistant to the  
Chairman, Council of Economic Advisers

Charles F. Stebbins, Executive Assistant  
to the Chairman, Joint Chiefs of Staff

SUBJECT:

Versailles Summit: Briefing Materials  
for President's Trip to France, June 4-6, 1982

DRAFT

NSC MEMORANDUM ON THE VERSAILLES SUMMIT

As agreed at the April 28 meeting of the Senior Interagency Group for the Versailles Summit, the Department of State circulated on April 30 the draft briefing papers for the President's briefing book as received by COB April 29. Papers received subsequent to that date are attached to this memorandum.

Agencies are requested to review the total package of briefing materials and to refine papers for which they are principal drafters to insure that the prescribed format is rigorously followed and that the substance of the papers is in tune with the briefing book as a whole. In addition, agencies should update all papers for which they are principal drafters, taking particular account of developments at the international meetings during the week of May 10.

Final papers in original form, cleared at the Deputy Assistant Secretary level, are due to Marshall Casse (Department of State, Room 7250, New State, 632-1089 or 2811) by COB, May 17 FIRM. Less time-sensitive issues papers and background papers should be forwarded by Friday, May 14. The papers should rigorously follow prescribed format and typeface. Drafting and clearance

information should be shown on a separate sheet with the title of the paper repeated at the top of the drafting info page.

The Versailles SIG will meet at 4:00 PM Tuesday, May 18 to review the status of the briefing materials and to receive a report of the final meeting of the Personal Representatives.

Attachments:

As stated.

## U. S. Economic Situation

The decline in real GNP during the first quarter was at an annual rate of 3.9%, somewhat better than the initial estimate of a minus 4.5%. More important, the entire decline was accounted for by a massive liquidation of inventories, much of it in automobiles. Excluding the inventory swing, so-called "final sales" rose at an annual rate of 1.9%, led by personal consumption expenditures (food, autos, and the like). Most other categories registered slight declines.

Outlook. Should inventory liquidation come to a halt this month or even slow down substantially, prospects for a modest second quarter increase in GNP will be good. A second half rate of increase in the vicinity of 5 percent now appears within reach. (The April Blue Chip survey of private forecasters shows a modest upturn in the second quarter and a second half of 1982 with a 4 percent-plus rate of growth.)

The case for a consumer-led recovery remains strong. We are now seeing real increases in consumer incomes, thanks to a lower inflation rate and tax cuts. This situation will be reinforced in the second quarter with the likelihood of continued favorable results on inflation and the effects of the 1982 tax cut.

The timing, near-term strength and sectoral composition of the upturn will be influenced by further progress on interest rates. There have been some recent declines in both short- and long-term rates since mid-February that are encouraging -- if sustained. Three-month Treasury bills are off more than a full percentage point, corporate bonds down about 1%, and sensitive mortgage rates are down about the same.

However, interest rates remain high, relative to current inflation rates. High real rates are characteristic of a significant disinflationary period, reflecting a slow change in inflation expectations. In addition the high real rate of interest may also be related to uncertainty, which is adding a large risk premium to the level of interest rates, particularly long-term rates. Substantial uncertainty currently surrounds both fiscal and monetary policy.

Current internal Administration projections call for a year-over-year fall in real GNP in 1982 of between 1/2% - 1% and an increase in 1983 of 4%. Prices, as measured by the GNP deflator, should rise about 7% in 1982 (year-over-year), and 6% in 1983.

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WORLD BANK ENERGY AFFILIATE

ISSUE

Other countries may urge the United States to reconsider its decision not to participate in a World Bank energy affiliate.

ESSENTIAL FACTORS

In 1981 the World Bank proposed to expand its FY 82-86 energy lending program from \$14 to \$30 billion and to create a leveraged energy affiliate to mobilize the required resources. The United States firmly opposes both and has worked instead to influence Bank policies to increase the total resources available for energy investment by structuring its operations in such a way as to catalyze more private investment. To date, however, Bank oil and gas exploration and development loans have continued to finance more than 40 percent of project costs compared to the 20 percent the Bank projected in 1977, and private participation remains limited.

Other Summit countries, particularly France and Italy, have given strong and consistent support to the affiliate concept as a means to raise new money for accelerated energy lending. They see such lending as important to improve LDC financial prospects, increase global energy supplies and improve export opportunities for equipment suppliers. Without USG participation, however, neither the Europeans nor the Saudis have been willing to commit funds to an affiliate. The Bank is still exploring ways to increase energy lending and may investigate a pool or trust fund concept.

TALKING POINTS

-- Development of LDC energy resources is important, but most energy investment funds must come from private sources. The MDBs should complement and catalyze private investment, where necessary, but at today's energy prices many projects are "bankable" in private financial markets.

-- We have urged the Bank to improve the effectiveness of its energy programs, within currently pledged resources. For example, the Bank should use its influence to encourage host countries to adopt energy pricing and investment policies which allow for greater private involvement. The Bank also should make greater use of creative co-financing mechanisms.

-- The Bank's objective should be to increase investment from all sources in economically viable LDC energy projects, not to increase its own lending.

## ENERGY SECURITY

### I. ISSUE

To emphasize the importance of the market place in encouraging economically attractive energy alternatives and the need to continue efforts to minimize at acceptable costs the disruptive effects of energy shortfalls.

### II. ESSENTIAL FACTS

1. There are abundant and economically attractive energy resources within the West.

2. Despite a welcome respite from oil market turbulence, the chance of sudden and potentially major disruptions in oil supply still exist. The U.S. has encouraged all countries to ready themselves by increasing oil stocks. In cases of large-scale oil disruptions, the IEA and EC emergency sharing systems remain the principal intergovernmental mechanisms for sharing the burden among industrialized countries. We have encouraged European countries to diversify their gas supplies and to implement measures which will reduce their vulnerability during disruptions in gas supplies.

### III. TALKING POINTS

-- Energy security involves both reliance on market forces and a prudent concern for political and strategic forces.

-- Energy security objectives can be achieved by relying on market to encourage development of energy supplies and more efficient use.

-- Western countries should commit themselves to increase indigenous energy production, thereby reducing dependence on less secure sources.

-- Recognizing that the energy market remains inherently unpredictable, Summit countries should reaffirm their commitment to the IEA oil emergency sharing system, take steps to increase stocks, and continue efforts to enhance Western natural gas security.

Criticism: The U.S. has not done enough to enhance its own and world energy security.

Responses: 1) U.S. oil imports have dropped to one-third the level of the late 1970's. 2) Our Strategic Oil Reserve has more than doubled during the last year. 3) U.S. coal exports are helping to meet the energy requirements of Europe and Japan. 4) We are achieving energy security through the initiatives of a strong and powerful private sector responding to clear market forces.



## CENTRAL AMERICA/CARIBBEAN

### I. ISSUE

Weak European support for our policies.

### II. ESSENTIAL FACTS

Most European governments know the need for more assistance, like in the Caribbean Basin Initiative, but could do more themselves. In Central America, except for the U.K., they have been helpful because of vocal domestic opposition. Schmidt's desire to be helpful is one such casualty. The Mitterand government, on the other hand, openly opposes our policies. The Salvadoran elections have put Europeans somewhat on the defensive in criticizing us.

Our policies are working in El Salvador: the first fair elections in fifty years; a moderate, civilian government of national unity dedicated to continuing agrarian reforms and the democratic process; the military clearly committed to the democratic process and eliminating human rights abuses. Military effectiveness has improved. The guerrillas suffered serious political defeat in the elections, but continue their violence. We favor bringing the left into the electoral process; they should not be negotiated into power. Nicaragua is still frightening its neighbors and drawing closer to Cuba. Latin America is supporting reform and democracy in El Salvador and opposes Nicaraguan intervention and repression of liberty. Even Mexico is having doubts about

its posture. We will continue to offer economic and limited military assistance to threatened democracies; American troops are not wanted or needed.

### III. TALKING POINTS

U.S. Point: Democracies are in economic trouble and their security is vital to us. The U.S. and its CBI partners are doing their part. Greater economic assistance and trade opportunities from Europe and Japan are needed, particularly for El Salvador, Costa Rica, and Honduras.

Response:

-- Europe's major obligations are elsewhere.

-- U.S. interest rates cause much of the problem.

European Criticism: U.S. should not resist progressive, revolutionary forces but give them an alternative to Cuba and USSR.

Response:

-- Recent elections in Costa Rica, Honduras and El Salvador destroyed the myth that the left had popular support.

-- Nicaragua shows the danger of helping Marxists take power.

-- We do not want to divert military resources to defend our third border.

## KEY ISSUES (CHINA)

### I. ISSUE

Tension with Beijing over U.S. arms sales to Taiwan threatens a deterioration in U.S.-China relations. Failure to resolve this issue could lead to a substantial retrogression of relations and make strategic cooperation difficult.

### II. ESSENTIAL FACTS

Beijing views this administration's policies, in particular our continuing arms sales to Taiwan, as betraying a fundamental disregard for China's sovereignty and an active desire to perpetuate Taiwan's separation from the mainland. We have agreed to discussions with China in an effort to bridge our differences. China has publicly indicated it may downgrade relations with the U.S. if the issue is not resolved.

In the discussions leading up to normalization of relations, the U.S. clearly stated its intention to continue the sale of carefully selected defensive arms to Taiwan. We have, however, been prudent and discreet in our approach to arms sales to Taiwan, and the record shows we have been sensitive to Chinese concerns. The visit of Vice President Bush is an effort to improve communication and demonstrate the high value the U.S. puts on relations with China.

### III. TALKING POINTS

Criticism: Continued U.S. arms sales to Taiwan jeopardizes U.S.-China relations and violates China's sovereignty.

Response:

-- The U.S. made clear its position on continuing arms sales to Taiwan when Sino-U.S. relations were normalized in 1979, and Beijing went ahead knowing our intentions. The record shows that we have been prudent and discreet in this area and have taken careful account of Chinese concerns.

Criticism: Is China likely to downgrade relations with the U.S.?

Response:

-- Neither we nor the Chinese desire a setback and are making a major effort to bridge our differences on the issue of arms sales to Taiwan. Should there be a setback, we will seek to limit its effect, as I expect Beijing also to do.

Criticism: Has recent tension between the U.S. and China allowed Moscow to improve its relationship with the PRC?

Response: China has responded coolly to the recent Soviet offer to improve bilateral relations. We would not be surprised to see some marginal improvement in trade or other non-political relations, but there is no indication of Chinese reassessment of Moscow or anything other than superficial moves.

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