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WITHDRAWAL SHEET

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. Cable	#081905Z Jun 82, 3 p.	6/8/82	P1/F1
2. Paper	Credit Restraints on USSR and US Grain Exports, 2 p.	n.d.	P1/F1
3. Paper	Report on the East-West Credit Issue at the Versailles Summit, 4 p.	6/9/82	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].

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- F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
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- 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].

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NATIONAL SECURITY COUNCIL

Bill Martin
Roger Robinson

Thought you might
be interested in this ^{two weeks ago}
short brief I did for
the President's Summit
background materials

Henry

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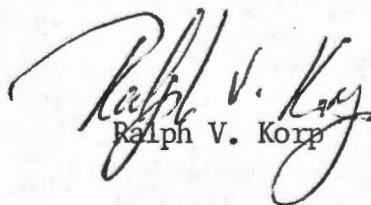
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THE DEPARTMENT OF THE TREASURY

June 8, 1982

TO: THE INTERNATIONAL MONETARY GROUP

Attached for the information of the Group is a copy of the
Communique of the Economic Summit Meeting in Versailles, dated June 7,
1982, with its attached Statement on International Monetary Undertakings.


Ralph V. Kopp

Versailles

Attachment

UNCLASSIFIED

June 7, 1982

Versailles Communiqué - Economic Summit Meeting

There follows for the information of the Executive Directors the text of the final joint communiqué as released to news agencies at the end of the seven-nation economic summit held in Versailles June 4-6, 1982:

In the course of our meeting at Versailles we have deepened our mutual understanding of the gravity of the world economic situation, and we have agreed on a number of objectives for urgent action with a view to improving it.

We affirm that the improvement of the present situation, by a further reduction of inflation and by a return to steady growth and higher levels of employment, will strengthen our joint capacity to safeguard our security, to maintain confidence in the democratic values that we share, and to preserve the cultural heritage of our peoples in all their diversity.

Full employment, price stability, and sustained and balanced growth are ambitious objectives. They are attainable in the coming years only if we pursue policies which encourage productive investment and technological progress; if, in addition to our own individual efforts, we are willing to join forces, if each country is sensitive to the effects of its policies on others, and if we collaborate in promoting world development.

In this spirit, we have decided to implement the following lines of action:

--Growth and employment must be increased. This will be attained on a durable basis only if we are successful in our continuing fight against inflation. That will also help to bring down interest rates, which are now unacceptably high, and to bring about more stable exchange rates. In order to achieve this essential reduction of real interest rates, we will as a matter of urgency pursue prudent monetary policies and achieve greater control of budgetary deficits. It is essential to intensify our economic and monetary cooperation. In this regard, we will work toward a constructive and orderly evolution of the international monetary system by a closer cooperation among the authorities representing the currencies

of North America, of Japan, and of the European Community in pursuing medium-term economic and monetary objectives. In this respect, we have committed ourselves to the undertakings contained in the attached statement.

--The growth of world trade in all its facets is both a necessary element for the growth of each country and a consequence of that growth. We reaffirm our commitment to strengthening the open multilateral trading system as embodied in the GATT and to maintaining its effective operation. In order to promote stability and employment through trade and growth, we will resist protectionist pressures and trade distorting practices. We are resolved to complete the work of the Tokyo Round and to improve the capacity of the GATT to solve current and future trade problems. We will also work toward the further opening of our markets. We will cooperate with the developing countries to strengthen and improve the multilateral system, and to expand trading opportunities in particular with the newly industrialized countries. We shall participate fully in the forthcoming GATT ministerial conference in order to take concrete steps toward these ends. We shall work for early agreement on the renewal of the OECD export credit consensus.

--We agree to pursue a prudent and diversified economic approach to the U.S.S.R. and Eastern Europe, consistent with our political and security interests. This includes actions in three key areas. First, following international discussions in January, our representatives will work together to improve the international system for controlling exports of strategic goods to these countries and national arrangements for the enforcement of security controls. Second, we will exchange information in the OECD on all aspects of our economic, commercial, and financial relations with the Soviet Union and Eastern Europe. Third, taking into account existing economic and financial considerations, we have agreed to handle cautiously financial relations with the U.S.S.R. and other Eastern European countries, in such a way as to ensure that they are conducted on a sound economic basis, including also the need for commercial prudence in limiting export credits. The development of economic and financial relations will be subject to periodic ex post review.

--The progress we have already made does not diminish the need for continuing efforts to economize on energy, particularly through the price mechanism, and to promote alternative sources, including nuclear energy and coal, in a long-term perspective. These efforts will enable us further to reduce our vulnerability to interruptions in the supply of energy and instability of prices. Cooperation to develop new energy technologies, and to strengthen our capacity to deal with disruptions, can contribute to our common energy security. We shall also work to strengthen our cooperation with both oil exporting and oil importing developing countries.

--The growth of the developing countries and the deepening of a constructive relationship with them are vital for the political and economic well-being of the whole world. It is therefore important that a high level of financial flows and official assistance should be maintained and that their amount and their effectiveness should be increased as far as possible, with responsibilities shared broadly among all countries capable of making a contribution. The launching of global negotiations is a major political objective approved by all participants in the summit. The latest draft resolution circulated by the Group of the 77 is helpful, and the discussion at Versailles showed general acceptance of the view that it would serve as a basis for consultations with the countries concerned. We believe that there is now a good prospect for the early launching and success of the global negotiations, provided that the independence of the specialized agencies is guaranteed. At the same time, we are prepared to continue and develop practical cooperation with the developing countries through innovations within the World Bank, through our support of the work of the regional development banks, through progress in countering instability of commodity export earnings, through the encouragement of private capital flows, including international arrangements to improve the conditions for private investment, and through a further concentration of official assistance on the poorer countries. This is why we see a need for special temporary arrangements to overcome funding problems for IDA 6 and for an early start to consideration for IDA 7. We will give special encouragement to programs or arrangements designed to increase food and energy production in developing countries which have to import these essentials, and to programs to address the implications of population growth.

In the field of balance of payments support, we look forward to progress at the September IMF Annual Meeting toward settling the increase in the size of the Fund appropriate to the coming Eighth Quota Review.

--Revitalization and growth of the world economy will depend not only on our own efforts but also to a large extent upon cooperation among our countries and with other countries in the exploitation of scientific and technological development. We have to exploit the immense opportunities presented by the new technologies, particularly for creating new employment. We need to remove barriers to, and to promote the development of, and trade in new technologies both in the public sector and in the private sector. Our countries will need to train men and women in the new technologies and to create the economic, social, and cultural conditions which allow these technologies to develop and flourish. We have considered the report presented to us on these issues by the President of the French Republic. In this context we have decided to set up promptly a working group of representatives of our Governments and of the European Community to develop, in close consultation with the appropriate international institutions, especially the

OECD, proposals to give help to attain these objectives. This group will be asked to submit its report to us by December 31, 1982. The conclusions of the report and the resulting action will be considered at the next economic summit to be held in 1983 in the United States of America.

Attachment

Text of Summit Statement on International Monetary Undertakings

1. We accept a joint responsibility to work for greater stability of the world monetary system. We recognize that this rests primarily on convergence of policies designed to achieve lower inflation, higher employment, and renewed economic growth; and thus to maintain the internal and external values of our currencies. We are determined to discharge this obligation in close collaboration with all interested countries and monetary institutions.

2. We attach major importance to the role of the IMF as a monetary authority and we will give it our full support in its efforts to foster stability.

3. We are ready to strengthen our cooperation with the IMF in its work of surveillance; and to develop this on a multilateral basis taking into account particularly the currencies constituting the SDR.

4. We rule out the use of our exchange rates to gain unfair competitive advantages.

5. We are ready, if necessary, to use intervention in exchange markets to counter disorderly conditions, as provided for under Article IV of the IMF Articles of Agreement.

6. Those of us who are members of the EMS consider that these undertakings are complementary to the obligations of stability which they have already undertaken in that framework.

7. We are all convinced that greater monetary stability will assist freer flows of goods, services, and capital. We are determined to see that greater monetary stability and freer flows of trade and capital reinforce one another in the interest of economic growth and employment.

MEMORANDUM

NATIONAL SECURITY COUNCIL

INFORMATION

June 11, 1982

MEMORANDUM FOR WILLIAM P. CLARK

FROM:

HENRY R. NAU *H.R.N.*

SUBJECT:

Versailles Summit: East-West Export Credits

I have written up for your benefit and for colleagues on the NSC staff, the attached account and assessment of the Summit events relating to the East-West credit issue.

What we achieved and what we need to do to follow up on this issue are discussed, beginning the middle of page 3. In my view, our follow-up must be vigorous, patient and persistent. The worst course of action would be to back off or drop this issue, especially after the intense discussion that took place at the heads of government level. The Europeans and Japanese would simply read this as another case of the U.S. waxing hot and cold on an issue. They would redouble their determination to resist us the next time we raise a disagreeable issue, knowing that if they resist long enough, the United States will cool off.

I have provided a version of this paper which begins with the fourth paragraph on page 2, to State, Treasury, Commerce and Defense.

cc: N. Bailey
R. Robinson ✓
W. Martin
D. Gregg
R. Pipes
J. Rentschler
D. Blair

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WITHDRAWAL SHEET AT THE FRONT OF THIS FOLDER.

MEMORANDUM

NATIONAL SECURITY COUNCIL

*6/17*INFORMATION

June 11, 1982

MEMORANDUM FOR WILLIAM P. CLARK

FROM: HENRY NAU *HN*

SUBJECT: Q's and A's on the Versailles Summit

I have attached a set of Q's and A's on the economic issues at the Versailles Summit. Since I am on leave next week, I thought it best to leave this material behind for your use, both as an overall assessment of the Summit from the U.S. perspective and as material for a press conference should the President call one.

I have also provided copies to Mort Alin and to my counterparts in the agencies.

cc: N. Bailey ✓
D. Gregg
J. Rentschler
D. Blair
W. Martin
R. Robinson
T. Reed

VERSAILLES ECONOMIC SUMMIT

Q. What did you accomplish at the Versailles Economic Summit?

A. This Summit took place under the worst economic circumstances since the recovery from World War II. Despite this fact, the leaders addressed every one of the controversial issues among us -- interest and exchange rates, budget policy, inflation, unemployment, protectionism, East-West trade, and relations with developing countries, particularly Global Negotiations. And they reached some element of agreement on each one of these issues. That fact alone, I think, is testimony to the health and unique character of the community we share with our Summit partners. The Summit country partnership is strong enough to embrace controversy and to forge from it meaningful agreement.

Now what specifically did we accomplish? Let me give you a few examples:

- We agreed that beating inflation convincingly and enduringly is still the key to strong recovery of growth and employment.
- We agreed that all countries must make more progress in lowering inflation and therefore will consult more closely in association with the IMF to coordinate our medium-term economic policy aimed at lower inflation, greater discipline, and more stable exchange rates.

- We have committed ourselves to improve and expand the GATT in the 1980s, recognizing the monument to Western cooperation represented by the post-war multilateral trading system.
- We reaffirmed our commitment to make our economic relations with the Soviet Union and Eastern Europe fully consistent with our political and security objectives and stated for the first time the need to limit our economic activity with the East specifically in the area of export credits.
- We strengthened our commitment to work together on energy and development problems.

In addition, of course, the Summit provided an invaluable opportunity to discuss pressing political issues -- the Falkland crisis, the Lebanon conflict which began while we were at the Summit, and the persisting problems of Soviet actions in Poland, Afghanistan and Southeast Asia.

This Summit showed more clearly than most Summits in the past that political unity among our countries is the essential basis for economic cooperation and prosperity, while economic interdependence is a solid support for our common security interests and democratic societies.

BUDGET POLICY

Q. Did the other countries criticize your budget policy?

A. In diplomatic parlance, we had a frank exchange on this issue. I welcomed their views and especially their concern as expressed in the communique that we achieve greater control of budget deficits. I suggested to them that I would convey this message to Congress and to the American people. I think they left Versailles with no doubt whatsoever that I am committed to reducing our budget deficits in the United States and that I believe the American people no less than the people of other countries support me in this effort to achieve more responsible policies.

INTERVENTION IN EXCHANGE MARKETS

Q. Did the U.S. change its policy for intervening in exchange markets?

Bullshit

A. No. The U.S. policy on intervention remains the same. We will intervene in exchange markets to counter disorderly market conditions. On this basis, we have intervened in the past and have been prepared to intervene on other occasions but decided not to do so when market forces corrected themselves. We stand ready to intervene in the future if required under these same policy guidelines.

What the U.S. did agree to do is to study together with its Summit country partners the effects of past intervention in exchange markets. We do not believe that such intervention has had a significant effect. In this study we intend to present evidence to that effect. We are ready to consider the experiences of other countries and any evidence they may have that suggests the utility of intervention. This study implies no commitment on our part to intervene more frequently nor on the part of the other governments to intervene less frequently.

The most important point to remember is that the U.S. believes that sound economic policy produces stable exchange rates. This is why I proposed closer consultations, in association with the IMF, to coordinate medium-term economic policy and help all countries to achieve lower inflation and greater monetary and fiscal discipline. If this effort succeeds, there will be less instability in exchange markets and less need for

TRADE ISSUES

Q. Did the Summit resolve any outstanding trade issues like the steel or agriculture issues with the European Community or the bilateral trade balance with Japan?

A. At the Summit, we sought to give political impetus and long-term direction to the further development of the multilateral trading system. Our purpose was not to dwell on specific issues but to chart a course for the improvement and expansion of the trading system. Such expansion would enable the GATT to deal more effectively with specific problems and would create a forward momentum that places specific issues in context.

We agreed:

- First of all to resist protectionist pressures and trade distorting practices.
- Secondly, to complete the work of the Tokyo Round.
- Thirdly, to improve the capability of the GATT to solve current and future trade problems. The U.S., as you know, seeks to extend the GATT discipline to future areas such as services, investment-related trade issues, agriculture and high technology.
- Fourthly, we pledged to work towards the further opening of our markets, implying that we would not be satisfied with merely solving existing problems.
- Fifthly, we indicated the need to bring developing countries more effectively into the multi-

lateral trading system and to expand trading opportunities with these countries.

All of these commitments apply to the forthcoming GATT Ministerial Conference where we pledged to take concrete steps to achieve our common goals.

The Summits have traditionally played a vitally important role in preserving and enhancing the free trade system. I am pleased that this Summit, despite the severe economic problems that currently exist, was able to take such a strong position on free trade. And I am further pleased that the U.S. played a leadership role, sometimes quite alone, in achieving these results.

EAST-WEST TRADE AND EXPORT CREDITS

Q. Why did the other Summit countries reject your views on East-West trade and export credits?

A. They did not reject my views on this subject.

Bullshit!
Despite the differences among the Summit countries on this issue, the final communique expressed agreement on the following points:

- The need to pursue a prudent approach to East-West economic relations consistent with our political and security interests.
- In this context we endorsed the progress made since Ottawa on the strengthening of strategic export controls and of national arrangements for enforcing these controls.
- Further, we agreed to exchange information in the OECD on all aspects of East-West trade.
- And finally, we agreed to handle cautiously financial relations with the East, including also the need for commercial prudence in limiting export credits.

Let me elaborate a bit on this last commitment. I have felt for sometime that for Western governments to subsidize credit to the Soviet Union was unwise. This is so not only for political reasons since it makes Soviet military expenditures easier at the margins. But it is also unjustified on purely economic grounds. We now have a commitment from the Summit governments to exercise commercial prudence in limiting export credits. I interpret commercial prudence to mean economic or

They don't!

market standards, namely no subsidization of credits provided by governments to the Soviet Union. Moreover, it is clearly stated in the communique that the exercise of commercial prudence should have the effect of "limiting export credits." Now limits imply certain ceilings and we will have to proceed quickly to define what these ceilings are. I expect that the U.S. will ask that the periodic ex post revision process referred to in the communique be convened as soon as possible in order to consider these issues of subsidy and limits of export credits to the Soviet Union.

GLOBAL NEGOTIATIONS

Q. Has the U.S. now agreed to launch Global Negotiations? And isn't this reversal of your policy not to engage in negotiations to redistribute the world's wealth?

A. The U.S. has never believed that the political dialogue with the developing countries was the most important aspect of the development process. I have stressed the practical and complex dimensions of the development problem to include trade, private investment, as well as aid, and to include bilateral and regional as well as global relations. The Caribbean Basin Initiative is a clear example of the development approach that the U.S. believes is most effective.

At the same time, the U.S. does not wish to ignore the role of the political dialogue. At Cancun, I stated that the U.S. took seriously its commitment to conduct a dialogue with developing countries, also in the United Nations, if certain essential understandings were reached. Those understandings included the need for explicit protection and guarantee of the independence of the specialized agencies. After our discussions at the Summit, we have reason to believe that the Summit countries agree on how to provide for these guarantees. On that basis, we are ready to work with other countries both developed and developing in the UN to see if these discussions can be started under circumstances that offer the prospect of meaningful progress.

The U.S. has not yet agreed to launch Global Negotiations. That is a decision which must be taken by

Bullshit

the 155 or so countries in New York. Nor have we agreed to negotiate anything until we have defined what it is we are negotiating. We will not negotiate, for example, a redistribution of the world's wealth.

GLOBAL NEGOTIATIONS: SECRET AGREEMENT?

Q. Did the United States conclude a secret agreement with the other Summit countries on this issue?

A. If your question concerns a secret agreement, I cannot of course confirm or deny its existence. Our experts discussed this issue thoroughly at the Summit, and the heads of government and state focused briefly on the results of this work. The Summit countries have increased their common understanding of what is needed to protect the specialized agencies in Global Negotiations, and it is on that basis that the Summit leaders expressed their belief that there is now a good prospect for launching global negotiations.

POLICY TOWARDS THE MULTILATERAL DEVELOPMENT INSTITUTIONS

Q. Given the fact that the communique talks about supporting the World Bank and especially IDA, has the United States changed its policy towards the multilateral development institutions?

A. The U.S. has always considered the work of the multilateral development institutions and the role of concessional assistance to be important in the development process. We have never believed however that concessional aid was sufficient to address the complex problems and challenges of development. Much more is needed. Hence, the United States has stressed trade, private investment, commercial financing and most importantly the domestic economic policies of the developing countries themselves. All of these factors, along with concessional assistance, are critical to sustained and independent development in the developing world.

If you read the communique carefully, you will notice that in addition to stressing the need for practical cooperation with the developing countries in the World Bank, IDA and the IMF, it also calls for the encouragement of private capital flows, including international arrangements to improve the conditions for private investment. This is a major step forward in recognizing the predominant role of private capital in financial exchanges with the developing countries. Currently some 70% of all financial flows to these countries occur through the private market. Without improved conditions for the flow of private capital,

there is little prospect of significant economic progress in the developing countries.

from fighting among themselves over what those policies should be. Part of the party will drift farther left once it sheds the responsibilities of government. If Mr Schmidt has to lead his party into opposition—and most Social Democrats accept that as their fate—better he should do so now, with his personal authority still intact and his grip on the party's saner wing still sure.

Mr Genscher promised to stick by the Social Democrats in government. But the ability to govern effective-

ly is slipping from the coalition's grasp. By clinging to the Social Democrats clinging to power, at best Mr Genscher can offer West Germans two more years of increasingly lame-duck government. At worst he and Mr Schmidt can hang on until the coalition collapses, exhausted, beneath them. By ending the coalition Mr Genscher can ensure that, when power is transferred, his own power can still be used to uphold the policies he and Mr Schmidt have fought for.

Lies at Versailles

Believing honesty is the best policy, *The Economist* offers an alternative communiqué which should have been issued by the seven free-world leaders last week at Versailles



As the heads of the governments of the United States, France, Great Britain, the Federal Republic of Germany, Japan, Italy and Canada we are concerned that the communiqués of the previous seven summits have grown ever more vapid. They give the impression that we all agree on pretty well everything. That is not true, and our electorates know it. Our credibility is not helped by an all-purpose communiqué. To try to get out of this trap, we have decided to tell the truth about our discussions at Versailles.

First, some areas of broad agreement. Most of us remain attached to open trade. This is partly because our advisers tell us that it is theoretically good at boosting growth and curbing inflation. More practically, we dislike being criticised by each other when our own protectionist policies cause jobs to be lost in an important constituency of one of our fellow summiters. Peer group pressure is influential. Six of us noted with satisfaction that we have extracted a new package of liberalising measures from Japan. We do not think it was bold enough for a country that will run a \$10 billion-15 billion external surplus this year, so we are not too effusive in our praise. More next year.

Energy, so Chancellor Schmidt keeps reminding us, was a theme at every one of the eight summits he has attended. The rest of us defer to his long experience, and not simply out of politeness. Energy prices in West Germany have been allowed to rise to reflect world prices, while German inflation is 5½% and falling. Canada, we note, has deliberately kept its oil prices below world levels. Its inflation rate is 11½% and rising. We made Mr Trudeau feel embarrassed about this.

On our economic dealings with the Soviet Union, we were pressed to accept some meaningless phrase about pursuing "a prudent and diversified economic approach . . . consistent with our political and security interests". Since this means that Europeans and the United States are deeply divided, we felt we ought to say so. The American position sounds clear enough: in uneasy peacetime, jaw-jaw should not be accompanied by more-more. The Europeans cannot understand why this principle should apply to everything except American grain sales to Russia. Only last month, a few miles up the road in Paris, American negotiators considered

offering Russia a \$1 billion credit to buy grain from the farm states (where Republicans hope to keep Democrats at bay in this November's mid-term elections). President Reagan argued that the Europeans should none the less go slow on the Siberian gas pipeline, even though many jobs will be affected in Hesse and Scotland, where Mr Schmidt and Mrs Thatcher also face elections fairly soon.

Our disagreement on east-west trade extends to north-south questions as well. The French and the Canadians are keen on "global negotiations", where every north-south subject will be up for grabs. They asked us all to say that "the launching of global negotiations is a major political objective approved by all participants in the summit". Actually, some of us will not approve if those negotiations are then handed over to the United Nations, on a one-country, one-vote basis. Since that is what many poor countries understand by "global negotiations", such words at Versailles would simply have raised false hopes.

Growthmanship

And so to the main theme of our summit. We were asked to sign a statement that

growth and employment must be increased. This will be attained on a durable basis only if we are successful in our continuing fight against inflation. That will also help to bring down interest rates, which are now unacceptably high, and to bring about more stable exchange rates.

We demurred, saying that we had rolled such phrases down from seven summits already, during which time unemployment had doubled, prices had risen by about 75%, interest rates had almost doubled, and exchange rates grown more volatile. Instead, we thought it more helpful to discuss why we had failed so badly in the past.

France, and to some extent Canada, believed that Keynesian cures should be tried again—boosting demand and holding the inflationary lid down by price and wage controls. They, along with Italy, were also the only countries still suffering from double-digit inflation: the rest of us were too polite to say so. At the other extreme, we noted that Britain's alternative remedies had produced the highest unemployment

rate. Some of us thought that enough to damn the Thatcher experiment; others ventured that it was too early to be sure. Secretly we were all delighted that France and Britain are acting as rival laboratories.

We were again impressed that Japan and West Germany have the lowest inflation and the lowest unemployment rates: no trade-offs there (and no great swings in policy either). More puzzlingly, the United States boasts the large fiscal deficits that Keynesian Canada and France would like, plus some of the monetary restraint that Japan and West Germany have achieved and that Britain aspires to. By pleasing everybody a bit America has found a formula for pleasing nobody at all. That is a moral we thought we could make more of when we get home.

All our domestic policies combine to influence the exchange rates between our currencies. The French

tried to pretend that we had agreed to some grand new currency plan—"the reconstruction of the international monetary system" was how one French minister put it at a press conference. We did nothing of the sort. The Americans continued to insist that they would not intervene in foreign exchange markets. Strangely, though, this now barren territory may yet see some fertile growth: our advisers tell us that they are working on a new approach to currency stability that could conceivably satisfy both the Americans and the French (see page 71).

Such a miracle is a long way off. For now, we have no great breakthroughs to offer the world—only a belief that honest disagreement openly arrived at is the least bad way of making economic policy. In this new spirit of truthfulness we will move next year to our ninth summit—and the first in the United States.

Being beastly to Japan



On cars Japan is more sinned against than sinning

The Japanese, it seems, are damned if they do and damned if they don't. After being blasted for exporting too much and going too slow on direct investment and co-operative ventures overseas, they now find the Italians attempting to block, by hook and mainly by crook, the sale of BL Acclams made under licence from Honda. Italian customs officials have, for example, held up consignments of Acclams by ordering BL to produce certificates of origin, which are not normally required for products sold to other EEC countries.

The export restraints on Japanese cars have already much distorted the car market. The Japanese are prevented from exporting more than 2,300 cars a year to Italy and more than 1.68m to the United States. They are not allowed to take more than 11% of the British or 3% of the French car markets. This has meant that western customers are paying more for their cars than they need. In the final quarter of last year the value of Japanese cars imported into the United States went up sharply while the volume went down. The Japanese substituted bigger models for smaller ones, so anticipating a change in fashion. They also, more helpfully for Detroit, raised prices because import quotas gave them no interest in maximising sales. Now they are being asked to face a very odd question: when is a Japanese car not a Japanese car?

The question is not always frivolous. Japanese truck makers until recently neatly evaded a 25% import tariff on pick-up trucks imported into America by sending them in as separate cab and chassis units and then bolting them together after they had passed through customs. But the Italian government should not be allowed by the EEC commission to put a made-in-Japan label on a BL Acclaim which BL calculates is 70% British. If any uncertainty persists over this, it could have a disastrous effect on a lot of Japanese

investment in Europe, including Nissan's tentative plans to invest £300m in a plant in Britain employing 5,000 people.

At present EEC regulations for tariff purposes say, unhelpfully, that products assume the nationality of the country where the "last substantial processing or transformation took place." Is substantial processing the pedigree test the Italians want to set BL Acclams, or the 80% local content the British government wants on a Nissan plant (in return for up to £150m in grants) or the claimed 70% of the Acclaim? Europe should be urged to settle for 60%, which is a figure many Japanese companies (eg, Nissan in Britain) are ready to accept. If the threshold were any higher there would be little sense in Japanese companies investing inside the EEC at all. They would find it more profitable to invest in Efta countries, where a 60% local-content rule applies, and then to take advantage of Efta's duty-free entry into the EEC market.

The Australian connection

What is good for the British goose should also be good for the Australian gander. Mitsubishi's Australian subsidiary is planning to export 12,000 cars a year to Britain. Nissan may export to Britain from its Australian plant. British car makers are muttering angrily about Japan coming in through the side door. The same mutterings as by Italians over the Acclaim.

Enough. If the Acclaim is British then cars made by Japanese subsidiaries in Australia, where 85% local-content rules apply, are certainly Australian and cannot be kept out under quotas placed on Japanese cars. There are plenty of reasons to complain over Australian policies on cars—notably import duties starting at 57%. They, not Australia's exports of cars made in Australia, should be the target of Europe's attacks.