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File Folder UNITED KINGDOM "SHERPA" MEETING 03/07/1986-
03/09/1986 - BROCKETT HALL - HERTFORDSHIRE
(BINDER) (3 OF 4)

FOIA

F02-071/3

Box Number 90981

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
31804	PAPER	OIL PRICES - TALKING POINTS FOR SHERPA MEETING <i>R 8/4/2008 F02-071/3</i>	5	3/5/1986	B1
31805	PAPER	JAPANESE ANALYSIS OF EFFECTS OF FALLING OIL PRICES <i>R 8/4/2008 F02-071/3</i>	2	3/4/1986	B1
31806	PAPER	RE: WORLD ECONOMY, PAGES 5-9 ONLY <i>D 10/26/2011 F2002-071/3</i>	5	ND	B1 B3
31807	PAPER	TGE WORKING GROUP <i>R 8/4/2008 F02-071/3</i>	2	ND	B1
31808	PAPER	ENVIRONMENT <i>R 8/4/2008 F02-071/3</i>	2	ND	B1

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Assistance to the Poorest LDC's

Talking Points

- Need to address macro-economic and structural needs of lowest income countries with protracted balance of payments problems. Most in Sub-Saharan Africa.
- We believe the U.S. Trust Fund proposal is the best approach.
- Welcomed IMF Board's preliminary endorsement. World Bank board is to take this up on March 11, followed by IMF Board final review.
- Welcomed developed country support. Hope we will have your backing in the next stages. Any lobbying among Africans and Latins would be helpful.
- Re: Summit action, believe strong endorsement for effective implementation would be appropriate. Section of draft themes paper needs strengthening.
- U.S. has recently joined World Bank Sub-Saharan Africa Facility with \$71.8 million contribution.
- We have been impressed with the operations to date and look forward to working with Bank management and other donors.
- IDA replenishment negotiations appear to be proceeding satisfactorily.
- Must stress, however, our ability to deliver on IDA-VIII is closely tied to success of the Trust Fund proposal.

Background

The United States and other countries have recognized that in the absence of a renewed effort by the countries and their creditors, it is likely that net financial flows to the Sub-Saharan region will decline over the remainder of the 1980's. There are several initiatives underway or under discussion that would entail support by the IFI's and donor countries for economic reform programs by the Sub-Saharan countries. These efforts are based on the expectation that such reforms will set the stage for sustained economic growth.

One initiative is the proposal tabled by Secretary Baker in Seoul last fall for assisting the poorest countries, primarily in Sub-Saharan Africa, confronted with protracted balance of payments problems. The plan would involve making available reflows to the IMF's Trust Fund, plus a roughly equivalent amount from the World Bank -- primarily IDA -- to countries implementing growth-oriented structural adjustment programs.

The program received a preliminary endorsement from the IMF Board at its February 11 meeting. It will come before the Bank Board on March 17 and the IMF Board again soon thereafter, for final review. The developing countries were lukewarm to negative in the IMF Board's discussion, so we are lobbying a number of them. We are trying to enlist the British and French to help.

A Sub-Saharan Africa Facility was established in the World Bank in April 1985. It provides credits to eligible countries to finance economic reform programs. It currently has pledges amounting to \$1.5 billion. The United States at first refused to join, but in January we contributed \$71.8 million.

At their January meeting, the IDA Deputies agreed on a \$10.5-\$12.5 billion negotiating range for the IDA-VIII replenishment. (The U.S. representative said we could support that range, provided adjustments in the terms for IDA lending and other adjustments were made.) The Deputies also agreed on an allocation under which any increment over \$10.5 billion would be used in conjunction with the Trust Fund and about \$2.5 billion within the \$10.5 billion would be used for similar lending. The United States has taken every opportunity to emphasize that the size of the IDA replenishment will depend on the success of our Trust Fund proposal.

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Oil Prices

Talking Points for Sherpa Meeting

- o Appreciate valuable Japanese papers on effects of oil price decline.
 - Obviously major effort in survey of large number of diverse studies.
 - Covers most key points.
 - But papers too long and detailed for needs of senior officials.
 - Studies cited lack common assumptions; hard for non-technicians to form integrated view from them.
 - Not desirable to have officials get bogged down in discussions of precise effects, selection of best assumptions.
 - Oil price developments only one aspect of economic environment; policy discussions should take place in larger framework, avoid overemphasis on one factor.
- o Our own view of impact of oil price developments generally

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parallels views expressed in Japanese paper.

- Although no one can predict exactly how oil prices will move, ~~likely that~~ average dollar price will be well below 1985 level.
- Considerable reduction in inflation rates in prospect. If, e.g., price averaged \$20/bbl this year, would anticipate 1 to 1-1/2 point fall in OECD average inflation rate. *(a high number)*
- Growth impacts may take longer to show up, but could be 0.5 to 1 point gain for OECD average ^{even fall to only} with \$20 oil ~~price~~.
- Depends on whether monetary and fiscal policies are set to make the most of the oil price benefits.
- With only modest changes in nominal demand, real demand greater with less inflation.
- Assumes passthrough of benefits to consumers.
- May take time for diversion of demand from energy to other goods and services to show up in higher output. In this respect believe Japanese paper too cautious about case of sharper price decline. Recognize some dislocations, but gains greater too. Just may take longer for resources to shift to non-energy sector.

- Would not expect major enduring changes in trade and current account balances. Oil exporting countries will likely cut back imports (either to meet financing constraints or to avoid undue dissipation of foreign asset accumulations from earlier current account surpluses).

- Even if growth impacts end after two or three years, real income (terms of trade) gains enduring for oil consuming countries. Can obtain imported energy with smaller volume of exports of domestically produced goods and services, leaving more product for home consumption.

- Oil importing LDCs gain by saving on oil imports, higher exports to more rapidly growing OECD countries, lower interest rates on debt as interest rates follow inflation down.
 - These gains likely to be spent on higher non-oil imports, thus facilitating more rapid LDC growth. May be little net change in oil consuming LDC current account balances *but higher living standards will result.*
 - Japanese paper may underestimate these benefits by focus on lower payments for updated oil.

- o While overall gains large and widespread, will be problem areas

too.

- Oil exporting LDCs with high external debts may have adjustment problems, financing strains.

- Believe these problems can be handled on case-by-case basis through cooperative action.

- Financing gaps for Mexico, Venezuela, and Ecuador can be financed without major difficulty if they adopt sound adjustment programs.
 - Nigeria, however, may need extraordinary financing measures to meet both debt service and minimum import needs.

- Oil sector in OECD economies also affected, but see no systemic problems. Lower inflation, lower interest rates, higher growth will strengthen other sectors.

- o Improved economic climate should improve prospects for action to reduce structural rigidities in OECD economies.

- o Believe Summit Declaration should include positive view of benefits of oil price decline, need to pass through benefits and generally to be sure policies make the most of potential gains, use situation to speed structural adjustment, work on

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problem situations in debt area.

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Japanese Analysis of Effects of Falling Oil Prices

For March 7-9 Pre-Summit Sherpa Meeting

Overview. The Japanese analysis integrates the results of 19 studies of falling oil prices done by various sources (e.g., OECD, IEA, DRI). The study concludes with policy recommendations concerning the impact of lower oil prices on individual national economies as well as on energy security. Though the study contains few surprises, some of its points merit mention.

Policy recommendations:

- ° To ensure that the positive effects of falling oil prices revitalize the world economy as a whole, developed countries should:
 - increase imports from LDCs,
 - increase capital flow to LDCs and
 - reduce interest rates to lessen the LDC debt burden.
- ° To cope with negative impacts on the energy sector, efforts should continue toward:
 - energy conservation,
 - development of alternative energy and oil sources,
 - stock build and
 - monitoring the situation carefully,

since energy policies should be decided from a long-term perspective.

Effects on Specific Nations of Lower Oil prices

- ° In the U.K., activation of non-energy domestic sectors would cause GNP to rise, but the current account balance and exchange rate would worsen, and inflation would increase. Sterling could become the object of speculation in foreign exchange markets (U.K. assessment).

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- In the U.S., interest rates might fall as inflation drops, only to rise at the end of 1986 because of increased demand for money (DRI).
- In Japan:
 - the slowing of export value growth would be less than that of imports, increasing the balance of trade surplus, and
 - if oil prices went below \$15 per barrel, reconversion from coal to oil could occur in the steel industry.

Effect on energy supply:

- Due to low direct lifting costs, North Sea oil production should not drop greatly before 1988 (James Capel), even if oil prices go below \$5 per barrel, as almost 90% of North Sea fields have operating costs below \$5 per barrel (Japan Institute of Energy Economics).
- In the North Sea, natural gas development would slacken if oil prices stayed below \$20 per barrel (IEA).
- New LNG projects would be threatened if a sharp oil price decline were sustained.
- The competitiveness of different nations' coal exports would reflect their prices, which (per barrel of crude oil equivalent) are \$6.41 for South Africa, \$7.93 for Australia, \$9.28 for Canada and \$9.62 for the Eastern U.S. (Australian Coal Assn.).

Drafted: HYarvin⁴, Wang 4087, 3/4/86

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MAJOR POINTS ON LOWER OIL PRICES AND THE JAPANESE PAPER

HIGHLIGHTS

- o Japanese analysis is generally consistent with U.S. perspective on declining oil prices. However, it is probably too long and detailed to be of much help for the Summit.
 - o One approach would be to go beyond the analytical statements in the Japanese paper to address policy concerns. Specifically, should we say more than that "lower oil prices have significant economic benefits."
 - o One approach for the U.S. Sherpa team would be to summarize the Japanese analysis and use the opportunity of lower oil prices to address four policy issues. These are as follows:
 1. Potential for greater economic growth
 2. ^{Better environment for} Structural reform
 3. Debt/stability of financial markets
 4. Long-term energy security
- 1) Economic Growth
- o A drop in oil prices to \$15/bbl would leave over \$200 billion (\$100 billion at \$20/bbl) in the hands of OECD

consumers. Most of this money would be spent on OECD produced goods and services. It would, however, lead to expanded demand for LDC exports.

- o U.S. Treasury and CEA estimates are not yet available. However, earlier work by CEA may have been slightly pessimistic, i.e., 1/3 to 1/2 point per \$5/bbl decline.
- o Recent work by Energy Information Administration shows GNP increasing at the following rates as a result of declines from \$26/bbl. (Confidential estimates by C.I.A. of OECD performance are attached).

	1986			1987		
	\$10	\$15	\$20	\$10	\$15	\$20
U.S.						
Real GNP	1.8	1.1	0.5	2.9	1.7	0.7
Unemployment						
Rate (difference)	-1.9	-1.2	-0.6	-3.3	-2.2	-1.0

- o Japanese assessment refers to potential problems from fiscal and monetary policies, oil taxes, and speed at which those who gain in real income increase their spending and those who lose reduce theirs.
- o The latter is known as "oil price drag." However, it should not be a problem even in an economy with large wealth transfers (as in the U.S.) if policies are adopted which do not prevent capital and labor from moving to sectors with higher economic returns.
- o Japanese paper provides estimates on potential U.S. deficit reductions. These were taken from EIA analysis.

The full range of estimates are as follows (OMB and Treasury have not cleared these numbers):

	1986			1987		
	\$10	\$15	\$20	\$10	\$15	\$20
Federal Deficit						
(Change) \$b	-19.0	-11.4	-5.1	-32.0	-18.5	-7.6

- o Most important conclusion from Japanese (and U.S. analyses) is prospects from economic growth are excellent and probably higher than we expect. Japanese are somewhat tentative of \$10/bbl, but U.S. views even this level as highly beneficial.
- o The sharply lower oil prices represent a significant wealth transfer to the OECD that mirrors the losses of the 1970's. This provides a unique opportunity to address critical economic issues facing Summit countries.
- o If the Summit Sherpa's can agree that there are widespread benefits from lower oil prices, it will make it easier to address a range of long-standing economic problems.

Structural Reform

- o Japanese paper does not probe this issue sufficiently. Lower oil prices provide an opportunity to move ahead on structural issues facing U.S., Europe, and Japan.
- o For U.S., we can reduce the deficit. For Japan, growth can be turned inward and macroeconomic distortions addressed for more domestic consumption and investment. For Europe, deregulation and reform of labor market can be given a big push.

Debt/Financial Markets

- o Japanese paper provides an assessment of the increase in debt service ratio from lower prices for several large oil-exporting LDC's. At oil prices of \$14/bbl, the debt service ratio for some countries under Baker initiative rises as follows:

	\$26/bbl (%)	\$14/bbl (%)
Mexico	37	51
Venezuela	18	25
Nigeria	11	19
Ecuador	30	41

- o The question of whether these ratios can be sustained and resulting implications is a problem Summit countries may wish to address. In addition, will subsequent growth in OECD raise LDC exports in other sectors sufficiently to reduce debt/service ratios?
- o Japanese do not see any systemic problem to financial system as a result of those lower oil prices. One approach would be for Treasury to emphasize the need to continue existing "ad hoc" mechanisms and/or other measures to address potential systemic problems from high debt loads for oil-exporting LDC's.

Energy Security

- o Major concern from lower oil prices now is the potential for a re-emergence of OPEC market power in the 1990's.
- o Best approach for dealing with this problem is a long-run commitment to strategic stocks (or at least no reduction in current stockpile policies) and continued progress on deregulation of energy markets. This provides a policy approach which is robust under uncertainty.
- o Under conditions in which consumers continue high efficiency practices, world oil prices could stay in the \$10-\$15/bbl range through early 1990's.

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31806	PAPER RE: WORLD ECONOMY, PAGES 5-9 ONLY	5	ND	B1

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Precis

Teshima defines the commodity problems of the 1980's as depressed prices, oversupply by producers and reduced LDC export earnings. He attributes the weak recovery in prices in 1983-84 and price declines in 1985 to weak economic recovery in Europe, disinflation, high interest rates, dollar appreciation and structural changes in supply and demand. Structural changes in demand include reduced income elasticity of demand in developed countries for specific products, arising from materials-saving technology or substitution (for metals and minerals) and changing consumer preferences (for food products). On the supply side, he mentions a tendency toward overproduction due to new producers, to government protection/subsidies of domestic food producers and to the need to earn foreign exchange to service debts irrespective of demand.

Teshima states that depressed commodity prices and large price fluctuations have adverse effects on the balance of payments positions and national income of LDC's with a high dependency on commodity exports because of reduced export earnings and deterioration of their terms of trade. On the other hand, developed countries, which account for 70 percent of world commodity imports, have benefited through improved terms of trade and lower inflation. He contends, however, that it is in the common interest of both developed and developing countries to jointly seek measures for the stabilization of prices and the supply of commodities.

With respect to existing measures to aid LDC commodity exporters, he questions the feasibility of commodity agreements that depend heavily on buffer stock operations as a means of price stabilization. The "other measures" envisaged in the Second Account of the Common Fund can be effective for many commodities and merit further promotion. Compensatory financing schemes to stabilize export earnings which focus exclusively on commodity export earnings do not seem to be appropriate. The commodity-focus approach could even discourage LDC efforts to reduce their heavy dependence on primary commodities. The IMF's Compensatory Financing Facility appropriately provides short-term balance of payments support, but a global STABEX-type scheme proposed in UNCTAD lacks clear objectives or conditions for the financing.

Teshima proposes longer-run approaches, rather than those designed to offset short-term price fluctuations: 1) stronger role of IMF and World Bank in support of LDC structural adjustment measures that reduce excessive dependence on commodities; 2) promotion of "other measures" to increase export earnings through research and development, further processing, and marketing and distribution enhancement (specifically by establishment of a Research and Development Fund for Commodities which would operate until the Common Fund enters into force); 3) a critical examination of the role of ICAs and reassessment in a positive way of the use of export quotas; and 4) improved environment for LDC exports through removal of trade barriers, elimination of subsidies of agricultural production and sustained, non-inflationary economic growth in the developed countries.

Critique

The extent of the "commodity problem" depends on the time period and currency in which commodity prices are analyzed. By defining it as a problem of the 1980s, Teshima uses a base year (1980) for his analysis near the high point for commodity prices in nominal terms. A large part of the explanation for this apparent commodity price weakness has been the strength of the dollar, whereas a world index of prices would have shown a stronger performance. He correctly lists the macroeconomic factors which influence commodity prices. On the supply side, overproduction that resulted from high prices during the 1970's was often the result of cartelization (e.g. OPEC) or other governmental intervention in the markets (e.g. International Tin Agreement).

The US is sceptical of ICAs whether they operate on the basis of buffer stocks or export quotas. We, therefore, share Teshima's scepticism toward ICAs with buffer stocks, but his suggestion that ICAs with export controls may have a role to play in commodity market stabilization is disturbing. Export controls have not been shown to work as intended (tin, where export controls were unsuccessful in maintaining an unrealistically-high support price and undermined the agreement to the benefit of non-member producers, and coffee, where a two-tier market developed with lower prices in non-member markets). Moreover, export controls do not guarantee accumulated stocks will be released as a guard against high prices. Teshima may be reflecting Japan's well-known desire to avoid the budget costs of buffer stock agreements.

Prices are only half the story with respect to LDC commodity export earnings. For the non-fuel primary-product producers, the decline in export prices was largely offset by an increase in the volume of exports since 1980. Although there is evidence for a real price decline for commodities in general since World War II, the interpretation of LDC terms of trade are fraught with difficulty when trying to measure the real purchasing power of exports from a longer time perspective.

There is also a problem with any attempt to generalize about the "commodity problem" since the problem exists, if at all, with respect to individual countries and specific commodities. The focus of a solution to the problem should be on helping LDC's to adjust to changing market conditions rather than distorting the market. It is not at all clear that current methods for reducing large price fluctuations can or will stabilize export earnings, increase income or stimulate development in the LDC's. A considerable body of evidence indicates no significant relation between earnings fluctuations and development.

We support Teshima's suggestion that long-term measures for LDC structural adjustment and freer world trade in commodities should be part of any commodity program. However, we doubt that establishment of a Research and Development Fund for Commodities would be a significant factor in addressing earnings fluctuations. Presumably Teshima intends to "rescue" money pledged to the Common Fund's Second Account, but this is not stated. (The US has not pledged money to the Common Fund and in fact announced that it will not ratify the Fund.)

Talking Points

- o Teshima overstates the benefits of stable prices for either producers or consumers. Price movements are needed to convey changing market conditions.
- o Major LDC commodity exporters are also net oil importers that benefit from lower fuel prices. Not all LDC's benefit from higher commodity prices.
- o Paper should clearly distinguish between price stabilization and price support objectives of commodity agreements. Price stabilization mechanism aims at reducing price fluctuations around long-run, free-market price trend.

- o Paper should distinguish between dollar prices and prices in other currencies, since a world index of prices would have shown considerably more strength than a dollar index. Also there is little or no trend in real commodity prices.
- o We should work together to reduce trade barriers and eliminate distortions to agricultural prices in both developed and developing countries.
- o Instability of commodity export earnings is a balance of payments issue that can be adequately addressed by the IMF, which has the international mandate to deal with this issue. The US does not believe that UNCTAD has an appropriate role in balance of payments matters.
- o The US is not convinced of the need for an international organization (or separate facility within an international organization) intended solely to channel funds from donor countries to commodity research and development projects. Countries wishing to do so may donate directly.



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31807

1. Bonn Communique Language

"16. We are convinced that international cooperation in research and technology in major projects should be enhanced to make maximum use of our scientific potential. We recognize that such projects require appropriately shared participation and responsibility as well as adequate rules concerning access to the results achieved, the transfer of technology and the use of technologies involved."

"18. We welcome the report from the Technology, Growth and Employment Working Group on the work done in the eighteen areas of cooperation and invite the Group to complete its review by the end of the year. We welcome the positive contribution which the Ministerial Conference on "Technological Development and Employment" held in Venice has made towards wider acceptance of the role of technological change in promoting growth and employment. We also welcome the results of the Rambouillet Conference on Bioethics and thank the Federal Republic of Germany for its willingness to host a symposium on neurobiology in 1986."

2. Developments Since Bonn

The Working Group on Technology, Growth and Employment reached a consensus at its November 15-16 meeting in Bonn that it had successfully completed its mandate and that it should therefore cease to exist after the Tokyo Summit. Coordinated pressure by the American, British, Canadian and German delegates overcame Japanese, Italian, and French reluctance to disband the group so soon. The group's chairman, Josef Rembser of the Federal Republic of Germany (FRG), has drafted a final report to the Summit embodying this consensus view, and we anticipate that the FRG will table it at the Honolulu preparatory meeting. The report also evaluates the eighteen projects coordinated by the TGE Working Group. Projects which receive particularly high praise include controlled thermonuclear fusion, remote sensing from space, advanced materials and standards, and high energy physics, all projects for which the U.S. is a lead or co-lead country.

Near the close of the November 15-16 meeting the Japanese delegate raised the possibility of a final TGE Working Group meeting in Tokyo in March 1986, but we doubt that this will materialize.

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3. U.S. Policy/Objectives

Although the TGE Working Group initiated some valuable work, it was never intended to have an indefinite life. Most of the projects it has sponsored have reached the stage where they can continue outside the Summit umbrella; a few projects have largely completed their work and can be abandoned at no cost. The U.S. therefore supports the consensus view that the TGE Group should cease to exist after the Tokyo Summit. This view is reflected in the final report drafted by the FRG for submission through the Personal Representatives to the Summit.

One item of unfinished business is the possibility of a final meeting of the TGE Working Group in Tokyo. We doubt that the Japanese intend to pursue this, but if they raise it at the preparatory meeting the U.S. should oppose it on the grounds that there is no remaining work for the TGE Working Group to discuss.

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31808

Tokyo Summit Sherpas Meeting
March 1986

ENVIRONMENT

Status

Environmental policy was a principal topic of the Bonn Economic Summit in 1985 (see annexed excerpt from Bonn Communique). Going into the last Summit, the U.S. position was to support a comprehensive look at the environmental aspects of economic development by an ad hoc group of environmental experts of the Technology, Growth and Employment Working Group; the convening of an environment ministers conference (in London, December 1984); and then setting forth principal conclusions in the Communique from Bonn. The U.S. (and most other Summit nations) viewed this as largely a one-time effort, with subsequent action on environmental affairs being directed to other more appropriate international organizations (especially the OECD). We did (and do) support, however, periodic recognition of environmental concerns, in general, at the Summit level.

In the face of strong FRG interest following the Bonn Summit, we did agree to cooperate in one specific follow-on environmental task: the development of a report on environmental measurement techniques which is now being carried out under FRG leadership.

It is now being proposed by the FRG (annex 2) that "environment" receive prominent attention at the Tokyo Summit and also be placed on the agenda of the one that follows. The attached paper from the FRG suggests not only that the Tokyo Communique have a "specific section on environmental matters" to emphasize its importance; but also that it would be "appropriate to assess to what extent the environmental conclusions of the Bonn Economic Summit have been put into practice". The FRG paper further proposes discussions on a series of quite specific environmental topics (e.g., harmonization of environmental standards; reduction of air pollution, especially nitrogen oxides).

U.S. Position

1. The U.S. believes that the importance of environmental conditions and policies and their relationship to economic growth has (properly) received strong attention by the Heads of State in Bonn. This recognition, and the calls for action by relevant parts of the international community, received wide publicity and support.

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BY LOJ NARA DATE 8/4/08

2. We do not feel, therefore, that it is necessary, or prudent, to engage in a detailed discussion of this subject in Tokyo, including in the preparatory stage. There is little that can be done to extend what was accomplished last year, which is still fresh in the minds of those who must shape and carry out environmental programs and policies. Also, inclusion of this subject will distract us from other pressing matters, and be in opposition to what the U.S. believed was a strong consensus that we should not institutionalize "environmental policy" within the Summit process.

3. Having said this, we would not oppose a reference in the Tokyo Communique which recognizes the continuing importance of environmental issues for the development process, notes and reaffirms Summit actions of last year, and expresses a continuing commitment to work independently and collectively in pursuit of the environmental goals and objectives previously enunciated.

(NOTE: This is consistent with Canada's position which is opposed to further detailed analysis and elaboration within the Summit, but supportive of a brief citation (feeling that complete silence on the environment this year, after references in the last two Communiques, would be an unnecessarily conspicuous omission.)

4. For purposes of discussing the "environment" in the Sherpa context and in Tokyo, to the degree that it can legitimately be cited in the Communique, the U.S. should attempt to concentrate discussion on recent events that can be portrayed as responses to, or otherwise supportive of, the Bonn Summit. This might include, e.g., the recent International Conference on Trees and Forests (SILVA) convened by President Mitterrand in Paris in January, particularly since it endorsed a new global action plan of tropical forestry (with a developing country orientation) that the USG supports. Also, by the time of the Tokyo meeting, it might be possible, and useful, to reference a positive step in U.S.-Canada cooperation on acid rain (based on the report of U.S. and Canadian emissions, now under review within the Administration).

Attachments
As stated.

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OES/SAT - RBraibanti *RB*



that consideration should be given to easing the financial constraints of these countries on a case-by-case basis.

9. We are deeply concerned about the plight of African peoples who are suffering from famine and drought. We welcome the positive response from our citizens and from private organizations, as well as the substantial assistance provided by the governments of many countries and the establishment by the World Bank of the Special Facility for sub-Saharan Africa. We shall continue to supply emergency food aid. In addition, we shall intensify our co-operation with African countries to help them develop their economic potential and a long-term food strategy, based on their own agricultural programmes. We are prepared to promote increases in food production by supplying agricultural inputs such as seed, pesticides and fertilizers, within the framework of agricultural development projects. We agree upon the need to improve the existing early warning systems and improve transportation arrangements. Political obstacles in the countries concerned should not be allowed to stand in the way of the delivery of food to the hungry. We emphasize the need to examine the establishment of a research network on dry zone grains. We shall strengthen our co-operation with African countries in fighting against desertification. Continued efforts are needed by all countries in a position to contribute to any or all of this work. We call upon the Soviet Union and other Communist countries to assume their responsibilities in this regard. We have set up an expert group to prepare proposals for follow-up measures to be reported to Foreign Ministers by September 1985.

III. Multilateral Trading System and International Monetary System

10. Protectionism does not solve problems; it creates them. Further tangible progress in relaxing and dismantling existing trade restrictions is essential. We need new initiatives for strengthening the open multilateral trading system. We strongly endorse the agreement reached by the OECD [Organization for Economic Cooperation and Development] Ministerial Council that a new GATT [General Agreement on Tariffs and Trade] round should begin as soon as possible. Most of us think that this should be in 1986. We agree that it would be useful that a preparatory meeting of senior officials should take place in the GATT before the end of the summer to reach a broad consensus on subject matter and modalities for such negotiations. We also agree that active participation of a significant number of developed and developing countries in such negotiations is essential. We are looking to a balanced package for negotiation.

11. It is also essential to improve the functioning of the international monetary

system. We take note that the Finance Ministers of the Group of Ten, at their meeting in Tokyo in June, intend to complete their current work on ways to improve the functioning of the monetary system and to put forward proposals, to be discussed at the next meeting of the Interim Committee of the International Monetary Fund in Seoul in October, with a view to making the international monetary system more stable and more effective.

IV. Environmental Policies

12. New approaches and strengthened international co-operation are essential to anticipate and prevent damage to the environment, which knows no national frontiers. We shall co-operate in order to solve pressing environmental problems such as acid deposition and air pollution from motor vehicles and all other significant sources. We shall also address other concerns such as climatic change, the protection of the ozone layer and the management of toxic chemicals and hazardous wastes. The protection of soils, fresh water and the sea, in particular of regional seas, must be strengthened.

13. We shall harness both the mechanisms of governmental vigilance and the disciplines of the market to solve environmental problems. We shall develop and apply the "polluter pays" principle more widely. Science and technology must contribute to reconciling environmental protection and economic growth.

14. Improved and internationally harmonized techniques of environmental measurement are essential. We invite the environmental experts of the Technology, Growth and Employment Working Group to consult with the appropriate international bodies about the most efficient ways for achieving progress in this field.

15. We welcome the contribution made by the Environment Ministers to closer international co-operation on environmental concerns. We shall focus our co-operation within existing international bodies, especially the OECD. We shall work with developing countries for the avoidance of environmental damage and disasters worldwide.

V. Cooperation in Science and Technology

16. We are convinced that international co-operation in research and technology in major projects should be enhanced to make maximum use of our scientific potential. We recognize that such projects require appropriately shared participation and responsibility as well as adequate rules concerning access to the results achieved, the transfer of technology and the use of technologies involved.

17. We welcome the positive responses of the Member States of the European Space Agency (ESA), Canada and Japan to the in-

itation of the President of the United States to co-operate in the United States Manned Space Station Programme on the basis of a genuine partnership and a fair and appropriate exchange of information, experience and technologies. Discussions on intergovernmental co-operation in development and utilization of permanently manned space stations will begin promptly. We also welcome the conclusions of the ESA Council on the need for Europe to maintain and expand its autonomous capability in space activity, and on the long-term European Space Plan and its objectives.

18. We welcome the report from the Technology, Growth and Employment Working Group on the work done in the eighteen areas of co-operation and invite the Group to complete its review by the end of the year. We welcome the positive contribution which the Ministerial Conference on "Technological Development and Employment" held in Venice has made towards wider acceptance of



(White House photo by Terry Arthur)



Chancellor Kohl reading joint statement.

FRG Paper
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Preparation of the Environment Part of the
World Economic Summit 1986

- I. Environmental policy was a focal topic of the Bonn Economic Summit in 1985. Conscious of the joint responsibility for the future of the world economy and the preservation of natural resources, this Economic Summit has for the first time at this level made statements of central and far-reaching importance on international environmental protection.

In the Bonn Economic Declaration of 4 May 1985 "Towards sustained growth and higher employment", the Heads of State or Government of the seven major industrial nations and the President of the Commission of the European Communities came to the conclusion that economic progress and the preservation of the natural environment are necessary and mutually supportive goals and that effective environmental protection is a central element in national and international policies. Recognizing the urgency of strengthening environmental protection, concrete areas for intensified international cooperation were determined in the section of "Environmental Policies" of the Bonn Economic Declaration, and it was moreover agreed to develop and widely apply the "polluter pays" principle in all countries and to harness both the mechanism of governmental vigilance and the disciplines of the market to solve environmental problems.

The Federal Government holds the view that this high-level agreement on intensified international environmental protection should be continued, the results achieved in Bonn be implemented and extended, the important impulses by the Bonn Economic Summit be confirmed and strengthened for the implementation of effective international environmental protection.

Attaching high priority to environmental protection also at the 1986 Economic Summit will promote its further intensification both in the national and international field. A specific section on environmental matters in the final communiqué of Tokyo is suited to emphasize the lasting particular responsibility of major industrial nations for the protection of the environment and natural resources as a long-term task. It would moreover be appropriate to assess to what extent the environmental conclusions of the Bonn Economic Summit have been put into practice.

Recognizing that the resources of the environment form both the basis and the limits of economic development - also of global economic development - and that environmental policy is an indispensable and fundamental factor for economic decision-making, the Federal Government considers it appropriate in the interest of all industrial nations and the developing countries to put the environmental dimension on the agenda also of the next Economic Summit.

...

II. The Federal Government proposes to discuss the following subjects in order to confirm and strengthen the decisions of the Bonn Economic Summit in the environmental field:

- support of rigid environmental standards and market-oriented incentives for the prevention of emissions at source which is more cost-effective in the long run, and for the development and application of cleaner and more resource-efficient technologies, in particular integrated environmental protection technologies
- international harmonization of environmental standards including standards for hazardous products and due consideration of this aspect in economic cooperation also with developing countries
- development and application of a cross-sectoral approach to environmental policy
- solution of environmental problems of regional and global importance, in particular
 - further reduction of emissions of air pollutants with a transboundary impact, especially reduction of NO_x and other pollutants contributing to the formation of photo-oxidants
 - protection of regional seas by prevention of pollution from land-based sources and pollution at sea
 - sustained protection of the environment and resources with regard to soils and forests
 - further improvement in protection for endangered species
 - prevention of man-made climatic changes

- taking into account the overall economic yield of environmental policy/comparison of costs of environmental protection with the costs caused by environmental pollution
- global introduction of environmental impact assessment for development aid projects.

These proposals are designed

- to give impulses for the solution of environmental problems of industrial nations and developing countries
- to encourage international approaches to reduce environmental pollution at source by means of more stringent regulations in the framework of existing international agreements, which in the final result is the cheaper way to reach this goal
- to intensify cooperation in the existing international organizations which, apart from OECD, deal with the relations between environment and economy.