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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

#2502

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April 14, 1982

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

By *[Signature]*
White House Cell, NAFPA, Date *2/4/87*
DECLASSIFIED
5, August 28, 1997

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Review 4/13/88

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STATE LIAISON: Marshall Casse, E, Room 7250 NS,
632-1089

NSC LIAISON: Henry Nau, Rm. 392, OEOB, 395-6961

S/S-S ACTION
OFFICER: Tom White, Room 7241 NS, 632-8062

The President will participate in the Summit meeting of industrialized countries to be held June 4-6, 1982, at Versailles, France. This memorandum assigns responsibility for the preparation of briefing materials to be included in the President's briefing book for the Summit.

The guiding principles for all Summit briefing material are brevity, clarity and, most important, relevance to the issues and level of the meeting. Drafters should be particularly careful to identify issues which the President's colleagues may raise and to provide appropriate responses. Drafters should also seek to insure that the President is informed of the economic and political constraints influencing his colleagues' positions on issues to be raised at the Summit.

Papers should be prepared on 8 1/2" by 11" plain white bond paper using IBM Courier 72 typeface or its equivalent and observing the sample formats attached. They must be letter perfect. Drafting and clearing information for each paper should be provided on a separate sheet. Overview papers should not exceed three pages. Key issue papers should be as concise as possible and should not exceed one page. Bilateral issues papers and country background papers should not exceed two pages in length.

Mr. Marshall Casse, Room 7250, State Department, T.N. 632-1089, as the point of contact for the Department of State, will receive all briefing materials from drafting agencies. Drafting agencies will obtain all appropriate interagency clearances before submission of papers to Mr. Casse. Clearances should be at the Deputy Assistant Secretary level or higher. The State Department Executive Secretariat (S/S-S, Mr. Tom White, T.N. 632-8062) will assemble the briefing books.

The following timetable has been established for preparation of briefing materials:

- April 22: Deadline for circulation of drafts among agencies.
- April 27: First cleared drafts of all papers due at State (Marshall Casse).

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- 3 -

- May 17: Final papers due at State (Marshall Casse).
Draft briefing books submitted to NSC
(Henry Nau, 395-6961) for circulation to
Cabinet and White House offices for comment.
- May 19: Senior WH Group Review of Briefing Books.
- May 24: Final briefing books delivered to White House.

The following table of contents designates drafting responsibilities for the Versailles papers. Where two or more agencies are shown as co-drafting, the agency listed first has responsibility for obtaining appropriate interagency clearances and for final delivery of the paper to State.

Michael O. Wheeler

Michael O. Wheeler
Staff Secretary

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VERSAILLES SUMMIT
President's Briefing Book

TABLE OF CONTENTS

I. SCOPE PAPER - will contain the President's objectives in priority order, the substantive setting for the objectives of other participants and US strategy to achieve our objectives.

Length: 4-5 pages Drafter: NSC/State

II. ANNOTATED SCENARIO - the "script" for the entire Summit from Versailles arrival to Versailles departure; listing each event with bullets indicating the participants, subject matter and objectives for each event; cross-referenced with the rest of the briefing book.

Length: As required Drafter: NSC/State

III. OVERVIEW AND KEY ISSUES PAPERS - Economic Topics

An Overview paper will be prepared for each major substantive topic to be covered in Summit plenary sessions. It will contain U.S. objectives, essential background and analysis, other country positions, and a checklist of key issues.

Length: 3 pages Drafters: See assignments
indicated below

Key issues papers, in "point/counterpoint" style, will be prepared on all key issues raised in the "Interview" paper and selected other topics as required by the Summit agenda.

Length: 1 page Drafters: See assignments
maximum indicated below

Drafting Agencies

A. Overview Paper: Macroeconomics and International Monetary Issues (Treasury/CEA)

Key Issues Papers:

- Interest Rates/Budget Deficits Treasury
- Exchange Rate Policy Treasury
- Economic Policy Coordination Treasury
- U.S. Economic Situation CEA
- Econ. Impact of Oil Price Decline CEA/CIA

B. Overview Paper: Trade and Investment (USTR)

Key Issues Papers:

- GATT Ministerial USTR
- Trade in Services USTR
- Investment Treasury/State/USTR
- NTBS, Subsidies, etc. USTR
- Sectoral Issues--Steel Commerce
- Agriculture Agriculture
- Reciprocity USTR
- US/Japan Trade Issues USTR
- Trade in High Technology Commerce/USTR

C. Overview Paper: East/West Economic Issues (State/NSC)

Key Issues Papers:

- COCOM/Strategic Trade State/Commerce/Defense
- Financial Issues
 - Volume of Debt State (Buckley Group)
 - Subsidies State (Buckley Group)
- Countertrade Commerce
- E/W Trade Composition State
- Yamal Pipeline State
- Energy Alternatives to Yamal Pipeline Defense

D. Overview Paper: North/South Issues (State/NSC)

Key Issues Papers:

- Global Negotiation State/NSC
- Global Growth Conference Treasury
- MDB Issues--US Contributions Treasury
- Energy Affiliate Treasury
- Caribbean Basin Initiative USTR
- Multilateral Food Corps AID
- LDC Economic Outlook Treasury/CIA
- Population State

Drafting Agencies

E. Overview Paper: Energy (State)

Key Issues Papers:

- Energy Security NSC
- European Energy Supplies CIA
- U.S. Supply Developments DOE
- Surge/Stockpiling State/DOE
- Price Trends/Outlook DOE
- Natural Gas - Pricing and Supplies DOE
- Nuclear Energy DOE
- Coal DOE

F. Overview Papers: Technology (State/NSC/Commerce)

Key Issues Papers:

- High-Technology Trade Issues USTR
- UN Code on Technology Transfer State
- Paris Convention State
- R&D Investment Commerce
- International Aspects of High Technology Commerce

IV. OVERVIEW AND KEY ISSUES PAPERS - Political Topics

Overview Papers: Political Topics (State)

Key Issues Papers:

A (East/West Issues)

- Soviet Union State
- Poland State
- Arms Control: INF/START State
- (Preliminary to NATO Summit) State
- Afghanistan (contingency) State

B. (Regional Issues)

- Middle East State
- Lebanon (contingency) State
- Central America/Caribbean including CBI State
- Southern Africa State
- China (contingency) State
- Southeast Asia (contingency) State

C. (Other Issues)

- Law of the Sea State
- Terrorism State
- Nuclear Non-Proliferation State

V. BILATERAL PAPERS

A. Issues Papers - will contain major issues between the US and each Summit country, including topics other heads of state may raise with the President.

Length: 2 pages Drafter: State
per country

B. Background Papers - two papers on each country--one economic, one political--provide information on the country pertinent to issues likely to be raised at the Summit. Papers should describe major domestic economic and political constraints on policy, and provide a critique of economic policy in the country.

Length: 1 page Drafters:
per paper Economic Paper - Treasury/CIA
Political Paper - State/CIA

VI. TEXTS/TALKING POINTS FOR MAJOR STATEMENTS

A. Presidential Statements:

First Dinner State/NSC
Opening Plenary NSC, with input from
Treasury, CEA, and
State
Closing Press Conference State

B. Summit Documents:

Draft Communique NSC/State
with USG critique

Michael O. Wheeler
Staff Secretary

Attachments:

- 1. Overview Guidance
- 2. Key Issues Guidance
- 3. Bilateral Issues Guidance
- 4. Country Background Guidance

Format: Overview Paper (3 pages)

OVERVIEW: SUBJECT (ALL CAPS)

I. U.S. OBJECTIVES AND INITIATIVES

Principal U.S. Objective

The top priority U.S. objective in the subject area, may be expanded to two items if essential.

Supplementary Objectives

Other objectives suitable for Presidential attention and possible Summit discussion, may include more specific objectives designed to reinforce the principal objective.

Initiatives

Specific proposals initiated by the U.S. for which Summit action is sought.

II. BACKGROUND AND PRE-SUMMIT PREPARATION

A brief section indicating the "state of play" on this subject, both in the Summit Preparatory process and in relevant international forums, including the positions taken by the U.S.

III. OTHER COUNTRY OBJECTIVES AND STANCE ON U.S. OBJECTIVES

Section indicating objectives of other countries at Summit with brief comment on rationale for country's position, e.g., domestic constraints, traditional policy, unique features, and likely line-up of countries on issues.

IV. DISCUSSION OF OBJECTIVES

For each objective, provide brief elaboration of the objective, if necessary, and talking points in bullet form.

Format: Key Issues Paper (1 page)

TITLE, CENTERED (ALL CAPS)

I. ISSUE

Describe the issue succinctly and briefly state the choices involved.

II. ESSENTIAL FACTS

Provide relevant facts, including significant country positions associated with the choices stated above. In a second paragraph, state the rationale for U.S. position.

III. TALKING POINTS

State in Point-Counterpoint format, i.e. the point which the foreign head of state may make followed by the U.S. response, or the U.S. point followed by likely foreign retort. Use bullet form, but not overly cryptic.

A sample Point-Counterpoint appears below:

Criticism : The U.S. auto agreement with Japan restrains Japanese exports to the U.S. at the expense of other industrialized trading partners.

Response:

-- Japan assured us, and other governments, that it will not offset restraint to the U.S. with a surge in Europe.

-- Japan's share of many European markets is only 8%, and already severely limited in key countries. Japan has 21% of U.S. market.

Attachment 3

Format Guidance for
Bilateral Issues Paper (2 pages)

BILATERAL ISSUES : COUNTRY (USE ALL CAPS)

I. STATE OF RELATIONS

Briefly describe the overall state of bilateral relations from the perspective of the U.S. and of the subject country. Be brief.

II. KEY ISSUES

Describe the leading issues between the U.S. and the subject country, one issue per paragraph. Underline the key words of the issue in the lead sentence of each paragraph. The last sentence of each paragraph should lay out the President's approach to the issue in conversation with his foreign colleague, as in the following example. It will be important to hear Adenauer's views out sympathetically in view of his political situation, but to avoid promises of support in the OAU and to avoid AID commitments to the Krupp steel project.

One issue per paragraph; each paragraph to end with guidance on how to address the issue in conversation.

Format : Country Background Paper - (2 pages)

POLITICAL BACKGROUND : COUNTRY (ALL CAPS) or
ECONOMIC BACKGROUND : COUNTRY (ALL CAPS)

NOTE: These papers must concentrate on factors in the country situation which are relevant to the objectives, issues and level of the Summit. In particular, they should give insights into the political/economic/social pressures, and policy philosophy, which lie behind positions the Head of State will take at Versailles.

I. OVERVIEW

Brief statement of the essential factors in the political (economic situation in the subject country, bearing on the Versailles Summit.

II. POLICY PROBLEMS AND CONSTRAINTS

Cogent statement of the domestic problems and domestic pressures facing the Head of State which may influence his approach to the plenary meetings and bilaterals. Include U.S. critique of subject country policies where appropriate.

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#2502

MEMORANDUM

NATIONAL SECURITY COUNCIL

UNCLASSIFIED
WITH SECRET ATTACHMENT

ACTION

April 13, 1982

MEMORANDUM FOR MICHAEL O. WHEELER

FROM: HENRY R. NAU *HN*

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

The attached memo from you to the Versailles Summit SIG participants tasks assignments to the various agencies for the preparation of the President's briefing materials for the Versailles Summit. These assignments have been discussed in draft form with the Versailles Summit SIG and cleared by all the agencies. It has also been distributed to the Senior White House Group and approved at the meeting of this group on Monday, April 12.

RECOMMENDATION: That you sign the memo at Tab I and distribute to the addressees.

APPROVE

DISAPPROVE

needs a signature block

Attachment

Tab I Memo to the agencies

UNCLASSIFIED
WITH SECRET ATTACHMENT

DECLASSIFIED
White House Guidelines, August 28, 1997
By SM NARA, Date 2/6/08

~~SECRET~~



DEPARTMENT OF STATE

Washington, D.C. 20520

April 10, 1982

~~SECRET~~MEMORANDUM FOR MR. WILLIAM P. CLARK
THE WHITE HOUSESUBJECT: Tasking Memorandum for Versailles Summit Briefing
Materials

Attached for NSC issuance is a final draft tasking memorandum for the briefing book to be prepared for the President's visit June 4-6 to Versailles. This text reflects changes agreed to in the SIG meeting April 6. We recommend it be issued as soon as possible to the involved agencies: State, Defense, Commerce, USTR, Energy, Treasury, Agriculture, AID, CIA, and the Council of Economic Advisers.



L. Paul Bremer, III
Executive Secretary

Attachment:

As stated

DECLASSIFIED
Department of State Guidelines, July 21, 1997
By ~~ay~~ NARA, Date 2/6/08

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GDS 4/7/88

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1

x = H. Nau / A. McLaughlin
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File
France
Summit
(Briefings)

INTERNATIONAL COMMUNICATION AGENCY

Briefings by:

Ms. Sandra Vogelgesang and Mr. Marshall Casse

Washington, D.C.

May, 1982

jh

P R O C E E D I N G S

MODERATOR: Good afternoon ladies and gentlemen, and welcome to the Washington Foreign Press Center. Our briefing this afternoon is, of course, keyed to recent developments and to developments which will occur in the not distant future between the United States and Europe and within the European context.

We have two briefers -- they are both briefing on background. Any use that you make of their opening remarks or their answers to your questions afterward should be attributed to a "State Department official". No references should be made to the briefers by name or title.

This briefing is on background, to be attributed to a "State Department official". The briefers, on whom you have biographical sheets which I think you picked up when you signed in (and may I ask you, if you did not sign in, to do so when you leave) are on my right -- Sandra Vogelgesang, who is Director of the Office of OECD, European Community and Atlantic Political Economic Affairs.

On my left, Marshall Casse, Special Assistant to the Undersecretary of State for Economic Affairs.

Ms. Vogelgesang will brief on the recently concluded OECD Ministerial Meeting, whereas Mr. Casse will be briefing on preparations for the forthcoming Versailles summit meetings.

May I repeat that this is on background, to be attributed to a State Department official. We will open with Ms. Vogelgesang.

MS. VOGELGESANG: Thank you very much. I welcome this opportunity to discuss the ministerial that was held in Paris the 10th and 11th of May. As has been noted, I will discuss the ministerial, and Marshall will pick up on the aspects of the ministerial that helped lay the backdrop for the Versailles summit.

In terms of covering the ministerial, I will note three different points. First of all, the background to the ministerial in terms of U.S. preparations; second, the agenda, and third -- the outcome in terms of what we considered to be the most important issues for the United States and other OECD member states.

First of all, in terms of the backdrop to the ministerial, we felt that this was an unusually important meeting for the OECD member states. It was a meeting that was taking place against the background of unusually serious economic problems, as you all know -- particularly with regard to the recession in a number of the member countries; increasing protectionism, and a divergence of a fairly serious nature in various economic policies.

And in the second regard -- the ministerial was particularly important because of this being the final multilateral leadup

to the Versailles summit, and also important in laying the foundation for the GATT Ministerial to be held in November of this year.

Because of these two particular points, we had an unusually large senior level delgation from the United States. As you know, it consisted of Secretary Regan, Secretary Baldrige, U.S. Trade Representative Brock, CEA Chairman Wiedenbaum, and Deputy Secretary of State Stessell.

In terms of the agenda, the second item I want to cover -- there were three major focuses for the meeting. First of all, macro economic policy; second, trade, and third -- relations with non member countries. Read, north/south relations and east/west relations.

The conclusions for discussions on all these areas were, as you know, incorporated in a communique and in draft minutes, or abreviated minutes for the work program for the OECD. If you do not have copies of the communique, which would probably serve as the best summary of the meeting -- I do have some extra copies available; I also have copies of some of the interventions made by the U.S. delegation, and can get copies of all of them for you if you request them.

Turning then to the outcome, the major outcome of the meeting, I will note each of the three agenda areas. First of all, macro economic policy. As you may know, this was the focus of the first day debate because the finance ministers were

leaving on the second day to go to Helsinki for the bank fund meetings.

A great deal of the debate, quite predictably, dwelled upon the subject of high U.S. interest rates -- but we noted that in contrast to some previous meetings, it was not a particularly confrontational atmosphere; simply a straight statement of concern which we in the United States appreciate -- because high interest rates are a concern for Americans, as well as for others.

There was no repeat of the kind of stale debate that took place at last year's ministerial in terms of trying to decide which was of higher priority for the OECD countries -- inflation or unemployment. Indeed, the result of the discussion on macro was to assume that both were extremely important, and that if we are to achieve a lasting solution on the unemployment problem, we must deal effectively with inflation - so there is a clear linkage between the two.

The communique reflected the fact that we preserved intact at the OECD consensus a strategy of sticking to non inflationary policies, getting away from the stop/go policies that have caused past problems, leading to what we would consider the only lasting solution to unemployment problems.

The communique, as you may have noted, has reflected an agreement on carrying forward a broad strategy that we have been following since the second oil shock -- most notably, with stress on reduced unemployment and inflation; second, emphasis on

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maintenance of a free trading program, and third -- producing more effective investment.

There was in the communique, I think of most note, the agreement that there would be greater medium term convergence of economic policies, and that that would be the way to help smooth concerns with regard to exchange rates. This stands in contrast to the approach advocated in the past by some with regard to coordinating in a fine tuning measure, or having an exchange market intervention.

Moving to the second area of trade -- the takeoff point for this particular discussion was the report given by Secretary General Van Lanup, noting the trade agenda for the 1980's.

As you may recall, this particular exercise began with the initiative proposed by USTR Brock last year at the 1981 ministerial.

Throughout the discussion on trade, there was general concurrence about concern about increased protectionism and the need to deal more effectively with this because of the effect on jobs.

General agreement on the need to improve emphasis on structural adjustment, and in that regard, that was a separate statement made on positive adjustment, which I could address further in the question and answer period.

Also, agreement with regard to bringing the LDC's more constructively and effectively in to the multilateral trade system.

Ambassador Brock led off the U.S. presentation with an outline of the challenges and opportunities before the trade system for the 1980's, and a work program for the GAT Ministerial. And if you'd like, during the question period, we could get into more of the specifics of his presentation.

Baldrige then focused on the need for increased OECD work -- in three crucial areas in trade -- investment, services and high technology.

GATT Director General Dunkle made a presentation with regard to preparations for the ministerial. The result of the trade discussions, and they were lively and they were protracted communique negotiations with a lot of bracketive language -- the result was that there was agreement that there was relevant OECD work to be done with regard to the GATT Ministerial.

There had been, as you know, some concern on the part of some delegations that we should not pre-cook the GATT, but there was the compromise that at least more background analysis should be done in the organization.

In that regard, a major work program has been laid out, elaborating on the program laid out in the Secretary General's report on trade in the 80's so that there will be more work on services, high technology, investment and relations with the developing countries.

The final agenda item -- relations with non member states -- discussion effectively broke down in to two areas.

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First, north/south -- and second, east/west.

With regard to north/south, here much of the discussion was abbreviated because there was the recognition that a great deal of time would have to be spent on negotiating the communique for final agreement.

The topic was introduced by the Secretary General. I would say that if you had to identify one common theme for the discussions, it was the interest in getting a launching of global negotiations.

At the same time, some other themes that were of note were the interest in increased trade liberalization, as a notable benefit for the LDC's, and the interest on the part of several countries in increasing aid for the poorest countries.

Deputy Secretary of State ^oStessell_^ was the U.S. representative making the intervention on this topic; I have a copy of his intervention here -- the key points would be that first of all, he concurred with the themes laid out by Secretary General Van Lennup endorsing the many pragmatic proposals that need to be pursued for development in the Third World -- stressing very much the need to accord a central role to the domestic economic policies of the developing countries.

He noted that LDC problems cannot be solved necessarily in one central forum; that indeed, one would need a variety of fora for being effective in addressing those problems.

He noted the understandings outlined by President. Reagan

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at the Cancun Summit, and the need for example, for respect for the competence of the specialized agencies.

The communique reflected very much the spirit of the discussion in terms of the interesting global negotiations, but also picked up on the language that was used at the Cancun Summit.

East/west was the final aspect of this third agenda item. Here, Secretary General Van Lennup was again introducing the topic, noting that there had been considerable work in the OECD on this area since the 1976 Kissinger initiative, but that in view of recent economic developments, there was need for more work to be done.

^oStessell then picked up on that point by endorsing the concern about these recent economic developments; he made clear in recognition of the understandable political concern of many OECD countries, that the U.S. was suggesting more work in this area wholly on economic grounds. The OECD is an economic organization; it does not want to be politicized.

For that reason, what he stressed was the need to put more emphasis on the problems of overlending to the east, and of granting subsidized credits.

There was a great deal of ^usupport expressed in the other interventions for the concerns noted by Deputy Secretary ^oStessell.

The outcome -- and again, as you may know from the communique -- is that there was some very general language endorsing

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further work to be done by the OECD.

To sum up, I would say that -- and perhaps we always declare success after a ministerial, but I think one could do it justifiably after this particular meeting -- on several counts.

First of all, it was an unusually frank discussion. I'm told by veterans of the ministerial you can often have very stale exchanges, but this was one with a lot of spirited and very useful dialogue. There was stress on the pivotal issues before the organization member states. There was consensus expressed quite clearly in the communique; it was not a reflection of division, but rather, of unity among the industrialized countries.

And finally -- and here is where I'll lead in to Marshall we considered it and I think our colleagues from all the other member states did also -- consider the ministerial to be a very useful leadup indeed to the Versailles Summit.

I think with that, I will turn it over to Marshall.

MR. CASSE: All right. I don't think I can add very much on the substantive issues, and it probably won't surprise you, since about 85% of the GNP of the OECD area is made up of the seven countries plus the EC will be represented at the Summit, that there is a certain concordance of issues at the Summit, and at the OECD ministerial.

Let me just say a couple of words on the preparatory process, and what we see as the primary U.S. objectives at the

economic summit this year.

First, just to get the details out of the way for those who may want them -- this is the 8th economic summit. They began in 1975 at the invitation of the President of France, Giscard D'estang at the time, and the first one was held at Ramboullier. As I say, in 1975. They have now been through all seven countries who participate, and are back again this year in France. The meetings will be held at the Chateau Versailles, and it will be really quite an elegant setting for a meeting of the heads of state of the seven most powerful economic countries, or the seven most powerful economies, I guess, in the world.

So this is the first of a second round; the summits have become a fairly important part of the international economic machinery. I would like to say, however, that they are not by any means decision making institutions. There was a period of say, about three or four years in which an attempt was made for the summits to actually agree on growth targets, on oil import targets, on a number of very specific kind of targets which the countries were then committed to.

That was not the original concept of the summits -- and it is not the concept that this administration is promoting. We feel that the summit meetings are useful --if only to get heads of state together in a fairly relaxed atmosphere, where they can become more sensitive and better understand each

others views, each others problems, each others domestic constraint and that they will then be in a better position to take the international consequences of their policies in to account when they're back home dealing with these domestic conflicting positions.

So that's the kind of meeting that we're talking about; however, it is a very useful device if I may say so, for you might call "mobilizing the bureaucracy" or concentrating the mind in the vast bureaucracy in Washington -- and some lesser bureaucracies elsewhere around the world.

On a specific meeting where there is a certain expectation of agreements, so for that reason summits are also useful for the policy process back home.

All right. At this meeting, there basically are three themes that I think will play strongly. One is in the area of macro economic policy, general economic policy. It will take off from the point that Sandy made about long term policy convergence, and kind of the catch word that will be ascribed to it will be economic policy cooperation. Or coordination, I'm sorry, I should say -- economic policy coordination.

Now there are two ways to think about economic policy coordination. One is the sort of approach that you might find in the Bonn Summit communique of 1978, in which the various countries pledged to increase the deficit by one percent of GNP, or to focus on inflation by doing something with their domestic

policy and aim at certain targets.

That's not what we're talking about here. We're not talking about short term demand management type activities in order to, say, smooth the cycle. We're talking about a more fundamental approach to policy coordination, which basically derives from a desire of all countries to achieve a certain degree of stability in the international economy. And the fact that stability in the international economy is not possible when you have inflation rates, for example, which differ among the five largest economies, which make up the SDR.-- from I think where, say, at 3.5% or so in Japan, to among that group, take France at about 14%.

You cannot have a 10% divergence in inflation rates and expect that exchange rates are not going to move eventually to reflect that.

So, stability requires a certain convergence in economic performance, and a convergence of long run policies.

Now, convergence then could mean two things. One, it could mean that those who are doing best do a little worse, and those that are doing very badly do a little better -- and you converge on the middle.

That's not what we're talking about. We're talking about a convergence which has as its basis certain agreed objectives -- and one of those is a minimal rate of inflation. No prescribed number, but simply a continual orientation of

economic policy toward reducing inflation. And three elements of this policy coordination that we're talking about -- monetary discipline, fiscal discipline and reliance, primary reliance on market forces for the allocation of resources.

So, policy coordination and the long run effect that that will have on international economic stability and exchange rate stability is the first major category that -- of discussion at Versailles. Second will be trade. Sandy has adequately covered trade. I think the reason that trade is important at this summit meeting is that I think the heads of state recognize that the current economic setting is exactly the worst possible setting to make progress in terms of liberalizing trade.

But at the same time, it is the most important time to make progress because if we start excusing protectionist measures because of the poor economic situation -- one thing that we know is that those protectionist measures will make the economic situation progressively worse, and it requires a comitment at the head of state level, at the political level -- to counteract those forces which will say because we're in a bad economic setting, we must protect ourselves for a period of time -- which always gets longer and longer and longer.

So there will be this kind of emphasis, and the President will make a very strong statement along those lines.

The third area this year -- for us in any case -- will be to continue a very fruitful discussion that was begun in

Ottawa last year on east/west economic relations. We were pleased to see in the OECD communique a reference to east/west questions -- I think it's probably the first time a ministerial communiqué sensed the Kissinger statement in '76, and there may even have been a reference in the communique in '76.

The OECD has a particular role in east/west economic questions, and that is a role that is primarily -- or strictly financial, economic, it's a question of gathering statistics, pulling in, publishing, making available statistics.

There is clearly a more political security element in east/west relations, and that's the sort of thing that the summits need to discuss. This was done last year, and the recognition that east/west economic relations must be consistent with east/west political and security considerations.


This year, we expect that that discussion will focus primarily on the financial questions in eastern Europe and vis a vis the Soviet Union -- partially drawn from the Polish experience, the debt situation there, and the realization both in the private sector and among government or official lending institutions that they may very well have -- they may very well be somewhat overextended in eastern Europe, and the need to consider how to adopt a more prudent credit policy toward eastern Europe and the Soviet Union.

So I think I'll leave it there.

MODERATOR: Thank you very much. We're ready for the first question -- and may I ask you please, that when asking

your questions, to wait until the microphone gets to you, and as a courtesy to our briefers, to identify yourself by your medium.

Do we have any questions? The gentleman here.

MR.  : ~~Swiss radio~~. Ms. Vogelgesang, you said that there was no confrontational tone about the interest rates at the ministerial, the discussion of interest rates --and Mr. Casse didn't even mention interest rates when talking about the summit.

At the October summit, President Reagan sort of told the other leaders that, don't worry, interest rates will be coming down by Christmas, American interest rates, to just be patient.

And they didn't come down. Now in March when he met President Mitterand, he told President Mitterand, don't worry, in two and a half months, the interest picture will improve -- and it hasn't really improved.

So don't you think there will be quite a lot of pressure on the President at the Versailles summit to really do something about interest rates and to come up with a budget compromise?

MS. VOGELGESANG: I think there are several points that could be made. Certainly there is a very clear concern about interest rates -- there's no question about that. You know that it's been articulated at Ottawa and it was very clearly; I attende

that summit, and it was a very clear theme at that particular summ

And -- there's no question that that's still very much on peoples' minds. It was THE point that was raised by most delgations at the OECD ministerial and it's certain to come up at the Versailles summit. But the point that we make is that we're just as interested in everybody else in getting those rates down -- the American people -- those who want to buy cars and houses -- want those rates down. It's certainly to the President's advantage economically and politically to get them down.

So we made it very clear at the ministerial, and it was stressed very strongly by Regan and Wiedenbaum in particular, and certainly reflecting the concern of the President -- we want those rates down.

But our overriding concern is to get at a program that leads to a lasting economic recovery. There is the clear conviction on the part of this administration, and Marshall may want to pick up on this theme, and undoubtedly that will be something we'll be stressing at Versailles -- that we've got to ge on with a lasting economic recovery program for the benefit not only of the United States, but for all of the other countries.

And one of the prices you may pay in the short term is to have some pain from interest rates.

MR. CASSE: Yeah. I think, just briefly, the concern about interest rates is clearly there, as Sandy says, not only

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among Europeans and to a certain extent, the Japanese -- who will be at Versailles, but in the President's economic statement a couple of weeks ago, you know, he very clearly said that one of the major concerns of his is to get interest rates down for very important domestic reasons.

So, it's not an issue of holding interest rates up for some kind of masochistic pleasure in the United States; we're not doing this on purpose -- but there are reasons why interest rates are high. Everybody doesn't agree on what those reasons are, but I think the President has said -- Don Regan has said that it has a lot to do with the budget, and certainly some movement on the budget in the negotiations in the Executive and the legislature here will make a lot of difference.

There's one caution, though, on interest rates -- and that is, I think we want to be careful not to expect that when U.S. interest rates come down that that will provide a panacea to the world economy.

At the moment, interest rates in the United States, the prime rate is, say, 16 and 1/2%. The relevant rates are down around 12 or 13% in the United States. In France, they're, say, 15 or 16%, a little higher in Italy. In Germany, however, interest rates were just reduced last week to nine; in Japan, something like six.

Whatever it is in these various economies that are causing even that disparity, it's not going to go away when U.S.

interest rates come down.

U.S. interest rates coming down to a reasonable real level; say, to six or seven percent at some point in the future, when inflation is down to 3 or 4 or 7 or 8 or 9%, when inflation is down to 4 or 5, whatever figure you want to use -- when that happens, that's not going to make up for the difference in inflation rates which continue to exist. The difference in the flexibility of these economies to adjust to shifts in demand or supply costs and so forth --

And so we don't want to get so focused in on interest rates and somehow lay back and wait for U.S. interest rates to come down and say when that happens, the world is going to be much better off. It will be better off -- because U.S. interest rates are down; for one reason, we will be better off, and we are a big part of the world economy -- we import a lot, okay? That's certainly true.

But the problems in a number of other countries which are reflected now in different -- in interest rate differentials will not have gone away, and those problems need to be addressed. So just that word of caution.

MS. VOGELGESANG: I think in fact there was appreciation for just those points on the parts of most of the delegations. It showed up at the ministerial and it showed up earlier on at Ottawa, and I suspect it will show up at Versailles -- appreciation for just that fact, that even though you cut those

rates down, that isn't the answer to all of our problems.

~~MR.~~ Q : The French, too, for instance, who have been sort of pushing this most, of all the Europeans -- do the French appreciate this position?

MS. VOGELGESANG: Well, I thought it was interesting in hearing the interventions by the French; certainly there was an expression of concern about interest rates. But there was also appreciation for the fact that you had to get at more fundamental problems; you had to get at the root of unemployment; there was particular emphasis placed on the problem of joblessness by the French delegation; a belief that you had to get on with more productive investment.

So it was a much more broadly gauged presentation on their part than I think they have often been characterized in the press -- and a clear appreciation on their part that interest rates will be just one facet of an overall program in addressing our shared economic problems.

~~MR.~~ Q : ~~Sibert Divalge~~. Did you see today's story in the New York Times, written by Paul Lewis from Paris? Could you comment on that so there is no need to repeat everything regarding ingerventions and kind of linkage with surveillance processes?

MS. VOGELGESANG: Well, this is a point to which both Marshall and I alluded; it was a point that was picked up in very general terms in the ministerial communique which said there

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was a reference to getting at convergence over time, in the medium to longer term in economic policies, and seeing efforts in that regard as a way to work more effectively in smoothing out rough spots in exchange rates.

Marshall was alluding, and he may want to pick up on this further -- to some discussions that had been underway, looking at ways to help because there's a particular concern on the part of some countries such as France -- about intervention in exchange markets. And it may well be that there can be more exploration of this topic to see the extent to which interventions actually can help get at the problems that are noted by the French and others.

~~MR.~~ Q : We have heard that the United States will intervene again; I mean, that's still in the open.

MS. VOGELGESANG: Yeah.

~~MR.~~ Q : How would you judge that? Will there be interventions again, or what will happen?

MR. CASSE: Well, I think -- let's clarify what the U.S. policy is, and let me say what it is NOT. The U.S. has not said that it will never intervene. Okay? If you look at ^{Beryl}~~Bill~~ Sprinkel's May 4, 1981 testimony when he laid down to the Senate Banking Committee or somebody, I don't know who it was, the date is right, but I don't know where he gave it -- he laid down U.S. intervention policy, and he said there that we accept our obligations under the Articles of Agreement of the

International Monetary Fund to intervene as necessary to counter severely disorderly markets.

Okay. So we have not said we will never intervene.

I think the article this morning, if I may comment directly on it, kind of overdrew the distinction. Okay? There is discussion of intervention policy and policy coordination, convergence of policies. It is likely that some kind of a statement will come out of Versailles in that area. We do not yet know exactly what it's going to look like, but one thing that is quite certain is that it will not change the fundamental U.S. policy toward exchange markets, which is that the markets are the best determinants of exchange rate levels, and that excessive interference in the market is more destabilizing than stabilizing, because it creates a situation in which you kind of tempt the participants in the market to try to find where it is that you're going to intervene -- and where you're going to come in and try to turn it around.

All right, so we're not talking about any kind of a return to a massive intervention. I think Secretary of the Treasury has background^{ed} on a couple of occasions in the last week or so, saying that we have been prepared to intervene on a couple of occasions, and the markets smoothed themselves out, and it was not necessary to do so.

So our policy is not to never intervene; it is to intervene when markets are severely disorderly and only on those

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rare occasions.

That I think is the kind of overdrawn aspect of the article this morning.

MODERATOR: The gentleman in the back?

MR. **Q** : ~~Armando Dickifrau, Brazil.~~

What should we expect from the summit? Will the emphasis be damage control in the sense of trying to prevent any exacerbation and protectionist moves? Things like that? Or, will the heads of state aim really to coordinating economic policy so that there could be a renewed confidence in the business so that the rates of investment would pick up again?

MR. CASSE: Well, unquestionably, the latter -- the second point that you make is our objective. That there be a greater coordination of long term policies, that that will help establish a climate in which investment, particularly the longer term investment that's associated with research and development, technological advance, and so forth -- will come forward in the private sector.

On the first point, whether it be damage limiting -- and I get the inference there that it is in the trading system -- I think that that is one of the options, one of the possible outcomes. Even that I think is positive in the current situation. The protectionist tendencies and pressures are so strong that serious backsliding and, you know, there are those who are pointing to the 1930's as the point in history which is

going to repeat itself in 1980.

I think that even a damage limiting is constructive -- but our intention certainly is to go far beyond that and to try to point toward a very constructive GATT Ministerial meeting this fall.

MS. VOGELGESANG: Perhaps I could elaborate on that. I think the Versailles Summit promises to produce what might be a tale of two time frames -- one short term and one long term. Now the short term, you will have emphasis on some of the points, some of which you noted, such as concern right now with interest rates, concern right now with a steel clash between the United States and the community, or an agricultural difficulty. A concern right now with problems of debt in eastern Europe.

At the same time, there will definitely be an emphasis on the longer term. Indeed, one of the real values of the summits over the years -- and Marshall sketched the backdrop of these -- is that it's been a very special opportunity for world leaders to sit down in an informal setting and look beyond the immediate problems of their in baskets, to look to how they might be developing shared policies over the next decade or so - and particularly, in this instance, there will be an interest in doing so, whether it will be in terms of some particular interests in looking at new areas such as high technology and the implications of that -- for job creation in all of the summit countries.

Looking at the GATT Ministerial, whereas you know. the

United States is trying particularly to get us to address not only the immediate problems, but the longer term issues, the emerging issues -- the trade agenda, the services, and agriculture and high technology.

So there really is very much, not only, the quote, "damage limitation" but also this much more, perhaps exciting dimension of looking toward the longer term so that we're building toward the year 2,000 in our relations west/west, east/west and north/ south.

~~MR~~ Q : It is a difficult question to put, because it is in more philosophical terms.

MODERATOR: Could I ask you to identify yourself?

~~MR~~ Q : ~~Morris Tally from the Times of London.~~
You are talking in terms of the short term and the longer term, and as you know, Lord Kains said, "in the longer term, we're all dead".

Now talking of these economic summits of the -- the 7, and there were some earlier than that -- we have related it from the days of those of Giscard who conceived the whole idea, and you had a sort of basic labor/socialist government in London with Harold Wilson and then James Calahan of course, like minded people like him, Helmut Schmidt in Bonn, etc.

Isn't one of the basic problems here, and maybe you will be able to help, which is I think a lot of people mind -- that there is such a different philosophy in the economic sense

of approach of the present administration to the economic problems in fiscal and monetary problems of the world, that respective of what they may want to do, even in the short term, the convergence is there, and you see how difficult it is within the EEC --

Now you've got a socialist, or a so called socialist government in France that are going for deficit financing, a totally different way of dealing with their economic problems in terms of the workers and Mitterand's whole concept of financing, etc.

How do you reconcile this in terms of, you know, real conversions? That's one question, and I'll ask the next one later if I may.

MS. VOGELGESANG: It's because of just that issue, and I think your question is very well taken - that the emphasis on conversion quite frankly -- conversion quite frankly has to be in the medium term or the longer term. There certainly is at this point a very real divergence in terms of economic approaches.

Now, one could argue on the one hand that that creates a particular challenge; on the other hand, one could argue that it offers a particular opportunity. Some economists have argued, or some political commentators -- I'm thinking of a piece recently in Foreign Policy, that talked about the complementarity of divergent approaches; that indeed that could be a special strength of the summit phenomenon, that you have a meshing of approaches.

So, one could be either a pessimist or optimist. I think to be most practical in terms of what is likely to come out of the summit, it's particularly necessary, number one, that you have a summit because of those different approaches -- and then, second, you have the recognition that you're probably all not going to agree on the immediate solutions, but that you all have shared long term goals, and it may simply be that you get at those goals, you achieve them in some different ways.

Do you want to add anything, Marshall?

MR. CASSE: No, I think that's right. That's the basic point -- that there is much more that holds together -- the economic systems of western Europe, the United States and Japan, and increasingly a number of developing countries than there are points of difference. And the longer term objectives, I think this is one of the striking points, is that both last year when I attended the OECD ministerial, and I think again this year -- Jacques Deloure made a point of stressing the importance of combatting inflation, of getting inflation down.

He will make a point of the necessity of increasing investment. Now the French may have a different way of increasing investment than we do -- but the emphasis on investment or on higher productivity and raising the standard of living through productivity investment, and that approach with a -- again -- we will probably take further the reliance on market forces, but this French government when he came in

said - one of the early pronouncements was, although it would nationalize, it intended that these nationalized industries would operate as private companies, relying on market forces.

So there is -- there are these common elements that bring us together, not only economically, but also - and this is a point the President will make, I mean, one thing I should mention is that the Versailles Summit is one part of a much longer trip that the President will take, including the NATO Summit in Bonn, a visit to London and Rome, and there will be during this trip a kind of -- a theme of the shared western values, political and economic. And that with this emphasis, it's necessary that the heads of state agree that while they pursue these objectives differently, they have to do so in a way that the basic structure and the basic system still works, so that they can be competitors, yet allies -- and that they can be competitors, yet part of the same, of a larger economic system.

~~MR.~~ Q : Would you say - the Canadian prime minister seems to have misgivings about the whole economic approach as being practiced here. I agree with you that the common objectives are there, like with, you know-- disarmament, everybody wants disarmament, wants it phased down, but it's a question of how you get there. And what I was trying to say, and maybe I express myself very badly, and I'm sorry about that -- but what I was trying to say was that there was a much greater

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identity of approach among people like, say, Wilson, Giscard, and I'm talking purely in the economic fiscal and monetary sense, and Helmut Schmidt or Callahan later, etc.

But here, if you talk to their officials and advisors, there is such a fundamental difference in approach that at some point, both sides of the Atlantic have to give and get away from what basically have become, shall one say rigid positions in terms of philosophical attitudes? That was my point, that you are talking about market forces, etc.; yet, all this had been implemented in very, you know, rigid terms of people becoming on both sides, doctrinaire, and not giving enough -- that was my basic problem with this.

MR. CASSE: Well, I won't deny that there has been a certain tendency in that direction. I think part of it has come from a -- from a misuse of the idea policy coordination over a period of time, which tended to move in the direction of some international body telling a country how -- what policy it should pursue.

And what we're talking about in terms of policy coordination, I think what is going to be discussed at this summit is precisely how do people with these differing views, how do they handle those differing views in a way that is for -- that stabilizes the system? I mean, it goes back to, if you will, to the communique of the declaration attached to the Rombullier communique, saying that the major economies

have a particular responsibility to pursue stabilizing economic policies -- and it's -- this is kind of a step in that direction.

I wouldn't necessarily agree with the idea that there is more divergence in economic philosophy now than at the first summit. I mean, you can cite a certain group in Europe at that time -- but now the United States takes a fairly strong position on, in terms of market forces, but so does Prime Minister Thatcher. Chancellor Schmidt is I think, you know, he's probably not as far along that spectrum as Mitterand and so forth. I mean, there is this spectrum. You can put two different countries on either end, and spread the others, whoever they may be, along the way, but I think that those relative positions just may shift over time, and the challenge still is to make that system work - and we have so far, and I think we will again. I mean, there is a certain success orientation to some extent.

~~MR.~~ Q : The other thing I was going to ask was in terms of east/west trade. Haven't you got a very difficult and basic problem in trying to coordinate policy, because if you see the President's speech ...

(CUT)

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~~MR.~~ Q : ... and if you get a dialogue with Solidarity and marshall law and etc. lifted, then you are willing to go in for greater aid, etc. Now aren't you going to get into a position where -- how you sort of coordinate and pla

for these kinds of things, you know, for example -- up to now you've been putting pressure on the West Germans, etc., not to get involved with the Siberian natural gas pipeline, etc. Of course they are still going ahead with that.

Suppose that within a year or so, after start begins and there is some progress in the IMF and Geneva, etc., you begin to think that maybe it is time to give them a bit of the carrot? So are you not getting in to a very difficult situations in terms of coordination and planning, and working out something, which, you know, you can't do everything in a week or even a few months?

MS. VOGELGESANG: Well, it's clearly a very complicated area -- but the main case we were trying to make in the OECD, and we'll continue to assert at the Versailles Summit, will be that there is a case of economic prudence. Strip away the political issues, which are important, and look at the issues strictly on economic terms -- there one can make the very strong argument that there is a need for increased cooperation.

If you look at the figures, for example; you've had rapid increase, a tenfold increase over the last decade in terms of the amount of debt owed the east to the west -- that amounts to \$80 billion at this point.

You have an enormous degree of subsidization credits, and one has to ask the question, and we've been noting the concern abo

the interest rates which affect the citizens and all the OECD countries, so, too, do the subsidization programs -and if you're concerned about taxpayers, you have to ask whether it makes sense to subsidize a situation where bankers, for example, are asking some very serious questions.

And if those bankers are asking the questions, ought not the government representatives at least suggest that we look together at the issues, understand more clearly what is going on, and then perhaps on the basis of that -- proceed with an approach that simply makes economic sense?

So that I would argue that there is an economic case, and that's what we've been stressing at the ministerial and would like to have explored more vigorously in subsequent multilateral meetings.

MODERATOR: We have time for one more question. Is there anybody in the room who has not yet asked a question and would like to do so?

This gentleman here?

~~MR~~ Q : (UNINTELLIGIBLE) If you say the political side, isn't there enough divergence in the east/west area, in the economic realm that it's hard to harmonize anything?

MS. VOGELGESANG: Well, notice that I was stressing not necessarily in the immediate future harmonization or coordination. What we are suggesting; indeed, what we found interesting that was suggested by Secretary General Van Lennup

is that there's a case to be made for at least understanding better what is going on; get more data about the debt that's at play, more data about counter-trade, so that at least you're able to proceed more effectively in your policies.

Clearly, there is an appreciation on the part of all of us that different countries have different stakes for economic and political reasons. In the federal republic, there would be a different stake in terms of trade, in terms of jobs in particular sectors, for political reasons -- because of the exchange of peoples between east and west, the stakes that families would have.

So, clearly -- there is a very pronounced appreciation in this country for the fact that there are different political and economic interests, and that we all have to proceed with sensitivity because of those differences.

At the same time, we're saying let's at least get on because of changed economic, not to mention political circumstances -- changed economic circumstances - let's get on with doing more of the needed homework in east/west economic relations -- and on that basis, make our own decisions.

MODERATOR: Well, thank you very much Miss Vogelgesang, Mr. Casse -- and may I repeat, that this briefing was on background to be attributed to a "State Department official". Thank you very much.

(END OF PROCEEDINGS AS RECORDED)